ÇANKAYAUNIVERSITY
THE GRADUATE SCHOOL OF SOCIAL SCIENCES
DEPARTMENT OF MANAGEMENT

MASTER THESIS

CORPORATE GOVERNANCE PRACTICES IN IRAQ: A DESCRIPTIVE STUDY OF LISTED COMPANIES

Ban Ahmed Jumaah ALSMMARRAIE

DECEMBER 2017

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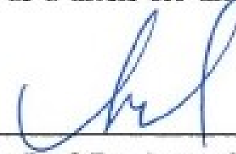

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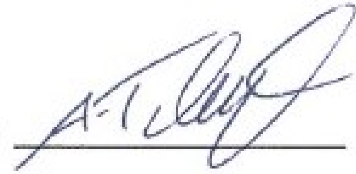
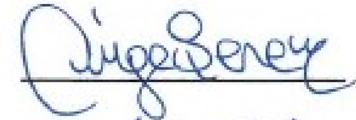
Prof. Dr. Alaeddin TİLEYLİOĞLU (Çankaya University) 

Assoc. Prof. Dr. İrge ŞENER (Çankaya University) 

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STATEMENT OF NON-PLAGIARISM

I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.

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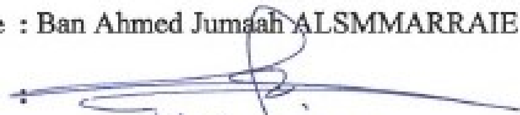

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ABSTRACT

CORPORATE GOVERNANCE PRACTICES IN IRAQ: A DESCRIPTIVE STUDY OF LISTED COMPANIES

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Master of Business Administration (MBA)
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Due to widespread corporate scandals and failures around the world, corporate governance has received considerable attention in recent years and there has been a renewed interest in the impact of corporate governance on corporate performance,particularly in attracting investment and building an efficient and attractive investment environment.The adoption of the concept of corporate governance in Iraq is a new issue and it is necessary, especially that Iraq is ahead of future opportunities and challenges in all areas. In addition, there is a need to create an integrated environment of rules, regulations and principles which guide the companies.All of thesecall upon Iraqi companies to adopt and apply corporate governance to improve operational efficiency and optimize access and build a good reputation for the company. Since, most research on corporate governance has been conducted in developed countries and markets;there is relatively little evidence for the Middle East countries, specifically Iraq. Accordingly the purpose of this study is to understand the extent of corporate governance practices in Iraq.This study examines the internal mechanisms of corporate governance, namely the analysis of the board of directors and the structure of ownership, for Iraqi companies listed in the Iraqi Stock Exchange (ISX) during 2016. In order to achieve the objectives of the research, data was collected from secondary sourcesand quantitative research methodologywasadopted for the analysis.The findings of thestudy indicate

thatall ofthe companies in the sample have a board size which is relatively ideal and consists mainly of internal members. Most company boards do not have independent members and there exists a weak representation of female and foreign members. The structure of ownership of the companies within the sample, on the other hand, is highly concentrated and most companies have private ownership, especially in the financial services industry. The findings of the study also reveal significant differences in terms of board size according to different industries and different ownership types. In addition, there is also a significant difference in terms of ownership concentration according to different industries.

Key Words:corporate governance, board of directors, ownership structure, Iraq

ÖZ

IRAK’DA KURUMSAL YÖNETİM UYGULAMALARI: BORSADA İŞLEM GÖREN ŞİRKETLER ÜZERİNDE BETİMSEL BİR ÇALIŞMA

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Dünya genelinde meydana gelen kurumsal skandalve iflaslar nedeniyle, son yıllarda kurumsal yönetime olan ilgi önemli ölçüde dikkat çekmektedir ve kurumsal yönetimin kurumsal performans üzerindeki etkisine, özellikle yatırımların cezbedilmesi ve verimli ve cazip yatırım çevresinin tesis edilmesine yönelik ilgi de yenilenmiştir. Irak’da kurumsal yönetim kavramının benimsenmesi yeni bir husustur ve özellikle gelecekte Irak’ın önünde tüm alanlarda fırsatlar ve mücadele alanları olması nedeniyle gereklidir. İlaveten, şirketlere yön veren bütünleştirilmiş kurallar, yönetmelikler ve ilkelerin olduğu çevrenin yaratılmasına ihtiyaç bulunmaktadır. Tüm bunlar, Irak şirketlerinin faaliyet verimliliklerinin iyileştirilmesi ve şirketlerinerişimlerinin etkinleştirilmesi ile iyi bir itibar tesis edilmesi amacıyla kurumsal yönetimin benimsenmesi ve uygulanmasını gerektirmektedir. Kurumsal yönetim araştırmalarının çoğunluğu gelişmiş ülkeler ve pazarlarda yürütülmesi nedeniyle, Orta Doğu ülkeleri ve özellikle Irak ile ilgili göreceli olarak daha az kanıt mevcuttur. Bu nedenle, bu çalışmanın amacı Irak’da kurumsal yönetim uygulamalarının kapsamının anlaşılmasıdır. Bu çalışmada, 2016 yılında Irak Borsasında işlem gören şirketler için kurumsal yönetimin şirket içi uygulamaları,

özel olarakyönetim kurullarının analizi ve sahiplik yapısı incelenmektedir.Araştırma amaçlarının

gerçekleştirilmesi içi5n ikincil kaynaklardan veriler derlenmiş ve analiz için nicel araştırma yöntemleri kullanılmıştır. Araştırma bulguları, örneklemde yer alan tüm şirketlerin yönetim kurulu büyüklüklerinin kısmen ideale yakın olduğunu ve çoğunlukla şirket içinden üyeleri kapsadığını belirtmektedir. Birçok şirketin yönetim kurullarında bağımsız üyeler yer almamaktadır ve kadın üyeler ile yabancı üyelerin temsil edilme oranları da azdır. Diğer taraftan, örneklemdeki şirketlerin sahiplik yoğunluğu yüksektir ve özellikle finansal hizmetler sektöründe faaliyet gösteren çoğu şirketözel sahiplik yapısına sahiptir. Ayrıca, yönetim kurulu büyüklüğünün farklı sektörlerde faaliyet gösteren ve farklı sahiplik yapılarına sahip şirketler arasındaki farklarının anlamlı olduğu araştırma bulguları ile ortaya çıkmıştır. Bununla birlikte, farklı sektörlere göre şirketlerin sahiplik yoğunluğu bakımından anlamlı farklılık mevcuttur.

Anahtar Kelimeler: kurumsal yönetim, yönetim kurulu, sahiplik yapısı, Irak

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LIST OF ABBREVIATIONS

CEO	Chief Executive Office
CG	Corporate Governance
GCC	Gulf Cooperation Council
GDP	GrossDomestic Product
GFCF	GrossFixedCapitalFormation
IMF	International Monetary Fund
ISC	Iraq Securities Commission
ISX	Iraq Stock Exchange
KRG	Kurdistan Regional Government
OECD	The Organization for Economic Co-operation and Development
SEC	Securities and Exchange Commission
UK	United Kingdom
US	United States
WB	World Bank
WFE	World Federation of Exchange

CHAPTER I

INTRODUCTION

The concept of corporate governance was discussed earlier in Jensen and Meckling(1976)and long before Adam Smith (Graham et al, 2005). According to the agency's theory, corporate governance aims to reduce conflicts of interest between all internal and external stakeholders, thus creating and improving the wealth of shareholders.

Over the past twoe decades, corporate governance has gained momentum and has become a growing topic of debate in both developed and developing countries, particularly in the wake of economic meltdowns and financial crises experienced by a number of East Asian countries, Latin America and Russia, as witnessed by the US economy at the beginning of the 21st century; financial failures, scandals and accounting (Enron) in 2001 and (WorldCom) in 2002.

Many studies have suggested that the collapse of these companies has weakened corporate governance.As in the study ofMara et al (2009), which showed that the cause of the collapse of these companies was due to theinadequate development of a corporate governance model that maintains a balance between shareholder goals and those of other categories of participants in economic life (Mara et al,2009).

There is no universally accepted definition of corporate governance around the world, but many scientists, researchers, institutions and organizations have attempted to define corporate governance from different points of view. The most widely accepted definition is that of the Organization for Economic Cooperation and Development (OECD, 2015: 9), which defines corporate governance as "involving a

sete of relationships between a company’s management, its board, its shareholders and other stakeholders and providing the core foundatione and structure through which corporate objectives are defined, monitored and achieved”. Even though certain pillars on which corporate governance rests are contained in laws and regulations, true corporate governance is about far more than only compliance and the adoption of generic standards (Amico, 2016).

Many countries around the world, lede by developed countries, have undertaken numerous efforts to enhance the effectiveness of governance structures through the development of corporate governance guidelinese and the introduction of corporate governance codes. The OECD has published the internationally accepted standards for corporate governance (OECD, 2007).Hence corporate governance has become a means of enhancing confidence in the economy of any country, providing evidence of fair and transparent policies and rules for the protection of investors and clients, and an indication of the level of corporate governance in the professional commitment to rules of good governance, transparency and accountability and measures to reduce corruption and thus increase the attractiveness of the economy for domestic and foreign investments and competitiveness(IFC, 2016).

The countries of the MiddleeEaste were not far from the crisis in the world, but the development of corporate governance frameworks in this region is largely linked to the development of the stock markets.It should be noted that most of the newly established financial markets in the Middle East, with the exception of the Egyptiane stock exchange establishede in the 19th century, the adoption of the concept of governance is relatively recent in the countries of this region (Amico, 2012).

In the past, stock exchanges were central in promotinge corporate governance practices among listed companies. In the Middle East, the positive role of exchanges in promoting the good results of corporate governance and the main contributione to exchanges is the issuance of criteria for inclusion, disclosure and compliance monitoring (OECD,2012). Listed companies in the region tend to be driven almost

entirely by evolving regulatory requirements, most notably corporate governance laws that contain most governancee provisions (OECD, 2012).

A number of these codes have recently been revised to meet existing challenges that have arisen because of the centralized ownership of companies and the inclusion of international requirements, such as the newly revised OECD principles of corporate governance and other standards.The importance of corporate governance has also increased as a result of the tendency of many countries around the world to shift to capitalist economic systems, which rely heavily on private companies to achieve high and sustained rates of economic growth.

Corporate governance practices are critical to global efforts to stabilize, strengtheneglobal capital markets and protect companies, as well as help companies to improve their performance and attract investment (The World Bank, 2014). It helps companies achieve their corporate goals, protect shareholder rights, meet legal requirements and demonstrate to a wider public how they are conducting their business (International Chamber of Commerce, 2006).

The corporate governance structures in emerginge economies often resemble those of developed economies inform but not in substance (Young et al, 2008). The Iraqi capital market focuses on the Iraq Stock Exchange (ISX). The stock market is characterized by its small size and is undeveloped compared to other countries of the Middle East, works in an insulated manner and trades the securities of companies in the primary and secondary market. The capital market was established in 2004(ISX, 2016).

The Iraqi Stock Exchange (ISX)sufferse from the non-applicatione or enactment of rules or guidelines for corporate governance and besides to the Code of Corporate Governance in the Middle East or Principles of OECD(OECD, 2015).The low integration of Iraq in the global market protected it from the direct impact of the global financial crisis through the financial sector in the country, where the global economic crisis did not affect the security of the Iraqi economy except through the decline in oil prices, which affected both exports and financial revenues. However, this low integration has had a negative impact on the Iraqi economy, which suffers

from the total dependence on the oil (International Monetary Fund, 2015).Greater economic diversification and investment, especially outside the hydrocarbon sector, can create new employment opportunities, increase resilience to oil price volatility and improve prospects for future generations. It would also broaden the base for government revenue, thereby reducing the reliance on oil and making the economy more resilient to oil price shocks(International Monetary Fund,2016). They can also generate financial revenues that can enhance human and material capital and ultimately support more private investment if managed well (OECD, 2016).

However,study and analysis are required for the characteristics of companies operating in Iraq in the public and private sectors in addition to the need to develop an economic model that reduces dependence on oil by introducing and adopting a set of principles and codes of corporate governance in order to benefit from the experiences of developed countries and Middle East countries in this area and work and provide strong regulatory support to attract and mobilize investments.

The adoption of the concept of corporate governance in Iraq is necessary since Iraq is ahead of future opportunities and challenges in all areas, especially in the economic fields and the increasing need to create an environment of integrated trust and rules to demonstrate good practices among companies. For companies operating in Iraq, the concept of corporate governance is new and is related to some extent to the regulations and laws governing the work of the Iraqi securities market, especially the Companies Law No. 74 of 1997, which was updated in 2004(ISX, 2016).

The Iraqi stock market suffers from its failure to apply the rules or principles of corporate governance, the Code of Corporate Governance in the Middle East or the principles of the Organization for Economic Cooperation and Development, as well as the lack of corporate governance studies in Iraq locally and regionally. There are only a few implications of this aspect within the regional or Arab studies or in the studies of Middle East countries.

Limited studies have highlighted the importance of corporate governance and its role in attracting investment in Iraq or analysis of the internal mechanisms of

corporate governance and its impact on the practice of listed companies in the Iraqi market for securities.These studies on corporate governance are limited to the economies of developed countries and large emerging economies.In addition, Iraqi studies on the concept of governance and its role in attracting investment or analysis of the mechanisms of corporate governance are few, or they focus on other aspects of corporate governance mechanisms, adding that the concept of governance is new to the Iraqi environment.One of the studies focuses on theaspect of the financial and accounting disclosures of the companies (Mohammed,2012) and the other study focused on the financial aspect and financial reports (Auset al, 2015) on the role of accounting disclosures in corporate governance.

The current legislative and regulatory framework under which companies listed on the Iraqi stock exchange is weak and not developed. The current corporate law, although amended in 2004, was written in 1997 and needs to be further updated to achieve better corporate governance in joint-stock companies, better shareholder rights and a safe environment for investors. Although the draft corporate governance issued by the Iraqi Securities Commission (ISC) was not implemented in 2016, its issuance could be considered a positive step towards the implementation of corporate governance principles and codes, as well as the implementation of some of the banks operating in Iraq, and the voluntary application of certain international financial and accounting standards in 2016 as part of financial and accounting disclosure requirements.

Therefore, the purpose of this study is to understand the internal mechanisms in depth of the governance of a board of directors and the structure of ownership of listed companies on the Iraqi Stock Exchange (ISX) for 2016, according to different industries in the Iraqi environment and the extent of the existence of any differences between them.In accordance, the research questions of this study focus on “how many companies are applying corporate governance principles?” and“are there any differences in terms of corporate governance principles, according to industries and ownership structure of companies?”

As Iraq looks to the future, it should continue its efforts to strengthen and improve its investment promotion capabilities and provide investors with a sound investment framework. However, a good investment climate requires a broader program of policy reform involving multiple areas where policy makers in Iraq need to adopt and apply a set of corporate governance rules and principles in companies listed on the Iraqi Stock Exchange at present and expand them to include the public sector and unlisted companies. These rules and codes mimic the Iraqi environment, while meeting the needs of the world and contributing to the creation of a sound and acceptable environment for investment locally and globally.

In order to understand the internal corporate governance mechanisms in Iraqi listed companies, this study has been conducted and divided into four chapters. The first chapter is the introductory part of the research which contains the background of the study, the objectives of the study and the significance and justification of the research,the second chapter is a literature review which contains a discussion of the definition of corporate governance and principles, corporate governance systems, corporate governance mechanisms, corporate governance in the Middle East (especially in Iraq). Chapter 3 is titled 'Research Methodology and Findings.' It includes data collection, a description of the variables, and techniques of data analyses and presentation. Chapter Four presents the results of the empirical statistics and a discussion of the results in addition to recommendations.

CHAPTER II

LITERATURE REVIEW

2.1. Introduction

This chapter discusses the existing literature. This chapter is divided into four sections. The first presents the definitions of corporate governance and principles,the second presents the characteristics of corporate governance systems from different perspectives, including Anglo-Saxon countries, Germanic countries, Latin countries and the Japanese system. The third section discusses corporate governance internal mechanisms and fourth section discussesCorporate Governance in Middle East countries and will include a number of studies for a group of developing countries and their experience in corporate governance. The fifth section reviews corporate governance in Iraq.

2.2. Definition of Corporate Governance and Corporate Governance Principles

2.2.1. Definition of Corporate Governance

The foundation of corporate governance can be traced to the pioneering work of Berle and Means (1932), who observed that once modern corporations have grown to very large sizes, they can establish a separate system of control from that of direct ownership (Ruparelia and Njuguna,2016).Definitions of corporate governance vary widely. They tend to fall into two categories:the first set of definitions is concerned with a set of behavioral patterns. The actualbehavior of corporations in terms of measures such as performance, efficiency, growth, financial structure, and treatment

of shareholders and other stakeholders. The second set is concerned with the normative framework, i.e., the rules under which firms operate, the rules coming from sources such as the legal system, judicial system, financial markets, and factor (labor) markets (Claessens,2006).There exist many definitions of corporate governance. The narrow definitions are summarized in Table 2.1and the broader definitions are summarized in Table 2.2.

Table 2.1: Narrow Definition of Corporate Governance

Narrow Definition (concerned with sets of behavioral patterns—the actual behavior of corporations)	**Author**
"The whole set of legal, cultural and institutional arrangements that determine what a publicly-traded corporation can do, who control them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated"	Blair(1995: 19)
"Corporate governance is concerned with ways of bringing the interests of investors and manager into line and ensuring that firms are run for the benefit of investors"	Mayer(1997: 154)
"Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment"	Shleifer and Vishny(1997 : 737)
"the complex set of constraints that shape the ex post bargaining over the quasi rents generated by the firm"	Zingales(1998: 499)
"a socially constructed force of field of driving and preventing forces that shape a firm's strategic behavior."	CarneyandGedalovic(2001: 337)
"the relationship among various participants (including: chief executive officer, management, shareholders, employees"	Monks andMinow(2004:93)
"Corporate governance consists of the legal, contractual, and implicit frameworks that define the exercise of power within a company, that influence decision making, that allow the stakeholders to assume their responsibilities, and that ensure that their rights and privileges are respected".	Jean(2005:2)
"Corporate governance consists of the legal, contractual, and implicit frameworks that define the exercise of power within a company, that influence decision making, that allow the stakeholders to assume their responsibilities, and that ensure that their rights and privileges are respected."	Collins(2005 :.2)
"Corporate governance ensures that board members, managers and employees direct and control the firm to provide appropriate results within a code of integrity, balanced to the interests of shareholders and other stakeholders"	Transparency International TI (2009:1)

Table 2.2: BroaderDefinition of Corporate Governance

Broader Definition (Concerned with the normative framework—the rules under which firms operate)	Author
"Corporate governance is the system by which companies are directed and controlled."	Cadbury (1992.15)
"Allocation of ownership, capital structure, managerial incentive schemes, takeovers, boards of directors, pressure from institutional investors, product market competition, labor market competition, organizational structure, etc. can all be thought of as institutions that affect the process through which quasi-rents are distributed."	Zingales (1998:4)
"Corporate governance is concerned with holding balances between economic and social goals between individuals and between individual and communal goals…the aim is to align as nearly as possible the interests of individuals, corporations and society."	Cadbury (1999:19)
"Corporate governance as both the knowledge and the art of weighting divided interests of all the stakeholders. In other words, it is the effort of balancing the relationships of power. The importance of corporate governance has been realized all over the world with the integration and liberalization of financial markets."	Herman Siebens (2002:109)

In general, the definitions of corporate governance found in the literature tend to share certain characteristics, one of which is the notion of accountability. Narrow definitions are oriented around corporate accountability to shareholders (Solomon,2004). Some narrower, shareholder-oriented definitions of corporate governance focus specifically on the ability of a country's legal system to protect minority shareholder rights, e.g., La Porta et al., (1998).Corporate governance is the broad term that describes the processes, customs, policies, laws and institutions that direct organizations and corporations in such manner that they act, administer and control their operations. It works to achieve the goal of an organization and manages the relationships among stakeholders, including boards of directors and shareholders(Khan, 2011).

2.2.2. Principles of Corporate Governance

2.2.2.1. OECD Principles of Corporate Governance

The council of the OECD set up a task force on corporate governance in 1998.One year later, it published the OECD Principles of Corporate Governance,

which were updated in 2004 (Padgett, 2011).Sincethen, these standardshave become "an international benchmark for policy makers, investors, corporations and other stakeholders worldwide" (OECD, 2004:3).Inaddition,"the Principles themselves are evolutionary in nature and are reviewed in light of significant changes in circumstances in order to maintain their role as a leading instrument for policy making in the area of corporate governance"(OECD,2015:11). Moreover, "the Principles are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance" (OECD, 2004: 11).

The OECD expects that these principles will help to enhance the operation of the standards and policies in which businesses in its member countries operate (Lessambo, 2014).Furthermore, "The Principles aim to provide a robust but flexible reference for policy makers and market participants to develop their own frameworks for corporate governance"(OECD,2015).The principlescover sixareas: the basis of an effective governance framework, shareholders rights, the equitable treatment of shareholder, and the role of stakeholders.For disclosure, transparency and board responsibilities (Padgett, 2012), these areas are listed below:

2.2.2.1.1. Ensuring the Basis of an Effective Corporate Governance Framework

"The corporate governance framework should promote transparent and fair markets and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement. This corporate governance framework typically comprises elements of legislation, regulation, self-regulatory arrangements, voluntary commitments and business practices that are the result of a country's specific circumstances, history and tradition. The desirable mix between legislation, regulation, self-regulation, voluntary standards, etc., will therefore vary from country to country" (OECD, 2015: 5).

2.2.2.1.2. Rights and Equitable Treatment of Shareholders and Key Ownership Functions

All shareholders of the same class should be treated equally, including minority shareholders and foreigners and they should be given the opportunity to obtain effective redress for the violation of their rights. The principle emphasizes the protection of minority rights and the rights of foreign shareholders, with full disclosure of material information. It ensures the establishment of systems that keep insiders, including managers and managers, from taking advantage of their roles. Moreover, it prohibits intra-insider trading and requires board members and managers to disclose any material interest in transactions (OECD, 2004).

2.2.2.1.3. Institutional Investors, Stock Markets and Other Intermediaries

This is a new principle addressing the need for sound economic incentives throughout the investment chain with particularemphasis on institutional investors acting in their credit capacity. It encourages them to disclose corporate governance policies and voting policies in relation to their investments. It also highlights the need to detect and minimize conflicts of interest, which may endanger the safety of consultants, analysts, intermediaries, rating agencies and other service providers for analysis and advice relevant to risk investors (OECD, 2015).

2.2.2.1.4.The Role of Stakeholders in Corporate Governance

In addition to the shareholders, in this principle (OECD) also recognizes the rights of stakeholders. Employees are usually the important stakeholders who determine how companies perform and make decisions. The corporate governance structureshould, as a result, guarantee that stakeholders'rights be legally protected and respected. It is advisable that stakeholders involvingthemselvesin the process ofcorporate governance tohave access to any germaneinformation the framework

also encourages active collaboration between companies and stakeholders in creating wealth, jobs and sound financial and sustainable projects(OECD, 2004).

2.2.2.1.5.Disclosure and Transparency

OECD principlesguaranteethat promptand précised clearations are made regardingeverymaterial matter related tothe corporation, including itsfinancial state, how it is performing, its ownership status and the company'sgovernance, including boards of directors and their remuneration. The guidelines also specify that annual auditsshould be performed byindependent auditors.Auditors, correspondingly with high quality accounting standards, and correspondingly with both financial and non-financial exposure. The means of broadcasting information should provide fair, cheap and prompt use access to germaneinformation. In order to continue close contacts and affiliationswith investors and market participants,companies must ensure that this fundamental principle of fair treatment not be violated (OECD 2004: 56).

2.2.2.1.6.Responsibilities of the Board

OECD guidelines lay out in detail the functions of the board in protecting a company, its shareholders as well as its stakeholders. The corporate governance structuremustguaranteethe key criticaldirectionof the company, the effective observationby the board, and the board's responsibilityto the company,shareholders and stakeholders. These include concerns about corporate strategy, risk, executive compensation and performance, as well as accounting and reporting systems. Board members are toconduct themselves on a fully informed basis, in good faith, with due diligence and in the best interests of the company and its shareholders. The board must furthermoreguaranteethat they obey allpertinent laws and give consideration to the interests of allstakeholders. It is necessary for the board to exercise impartial discretion and discernment regardingcorporate matters, independent of management (OECD, 2015:52).

2.3.Characteristics of Corporate Governance Systems

2.3.1.Corporate Governance Systems

A system of Corporate Governance is defined as “a more or less country-specific framework of legal, institutional and cultural factors shaping the pattern of influences which stakeholders exert on managerial decision-making” (Weimer and Pape, 1999:1).In addition to thisdefinition, corporate governance systems vary significantly from country to country. In a highly dispersed shareholding system, such as in the United States(U.S.A), members of a board of directors are granted the responsibility of monitoring executives. Internal corporategovernance systems in Germany and Japan, on the other hand, rest with large shareholders (Lashgari,2004).

According to (OECD 1999:6), “there is no single model of corporate governance; governance practices vary not only across countries but also across firms and industry sectors”.Nevertheless, it is possible to distinguish system of corporate governance commensurate with ownership levels and to control and identify any controlling shareholders. While some systems,known as “outsider systems”, are characterized by widely dispersed ownership, other systems,known as “insider systems,” tend to be characterized by concentrated ownership or control(Maher and Andersson,2000: 4). Inside directors, also called executive directors, are directors who are both members of a board and executives of a company (Hermalin andWeisbach, 2001).Moreover, inside directors supply the board with valuable information about the firm’s activities, history and background (Solomon, 2007). Outside directors are directors whose primary employment is not with the firm. They are also called non-executive directors (Adams et al., 2010). They are non-management members of the board and have no executive responsibilities in the company.Neither are they involved in the day-to-day running of the company’s business activities (Goodstein et al., 1994).

Shleifer and Vishny (1997:750) maintain that, worldwide large number of the distinctions in systems of corporate governance originate fromdiverse regulatory and legal environments.In fact, the Corporate Governance system is crucial because it can

influence any decisions undertaken by firms and ultimately it will have an impact on the wealth created in a country (Brandle and Nol,2004).Different theories and philosophies have provided the basis for the development of alternative forms of corporate governance around the world (Lashgari, 2004) based on different and varied classifications according to the views of researchers based on being “market oriented” and “network oriented”.According to Scott (1985), De Jong (1989), Moreland (1995), Wimmer (1995), and in the light of the terms “market-oriented” and “network-oriented”, corporate governance systems are classified into four groups.

- First group: Anglo-Saxon countries: USA, UK, Canada and Australia
- Second group: Germanic countries: Germany, the Netherlands, Switzerland, Sweden, Austria, Denmark, Norway and Finland
- Third group: Latin countries: France, Italy, Spain and Belgium
- Fourth group: Japan (which is considered an isolate)

Based on the above classification, the characteristics of corporate governance can be identified with eight characteristics.All these characteristics have legal, institutional and cultural dimensions, although one is commonly prevalent(Weimer and Pape, 1999):

a. The prevailing concept of the firm**:** The national prevailing concept of the firm in terms of the role of the “company” in the national culture;

b. The board system (one-tier vs. two-tier structure): “The one-tier board gathers both types of directors in one unified group. Still it remains possible to differentiate non-executive directors from executive directors” (Solomon, 2013).

   In addition, one-tier boards can have a board leadership structure that separates the CEO and chair positions of the board (Mehrotra, 2015). “The two-tier board is a dual board system, consisting of a management board and a supervisory board, that both act autonomously”(Jungmann, 2006).The members of the one-tier board are

elected by shareholders, while the members of the management board are usually elected by the supervisory board.

c. Salient stakeholders are able to exert influence on managerial decision-making.

d. The importance of stock markets in the national economy according to two indicators used by the World Federation of Exchange (WFE): the market capitalization of domestic companies as a percentage of Gross Domestic Product (GDP) and new equity raised through public offerings as a percentage of the Gross Fixed Capital Formation (GFCF).

e. The presence or lack of an outside market for corporate control pertains to the mechanism of control and ownership of listed companies which moves one group of investors and managers to another.

f. Ownership structure in terms of the ownership concentration (the presence or absence of large shareholders) and the identity of shareholders (individuals, banks, other financial institutions, nonfinancial institutions, governments, foreign investors)

g. The extent to which executive compensation is dependent on corporate performance.

h. The time horizon of economic relationships.

This aspect refers to the general time horizon of economic relationships within a national economy.Each characteristic is automatically linked and influences others. The systems of corporate governance are summarized according to corporate governance characteristics in Table (2.3).

Table 2.3: Taxonomy of Systems of Corporate Governance

Characteristics	Anglo-Saxon	Germanic	Latin	Japan
Concept of the firm	Instrumental, shareholder oriented	Institutional	Institutional	Institutional
Board system	One-tier	Two-tier	in general one-tier Optional (France)	Board of directors; office of representative directors; officeof auditors· de facto one-tier
Salient stakeholders	Shareholders	Industrial banks (Germany employees, in general oligarchic group)	Financial holdings, government, families in general, oligarchic groups	City banks other financial, institutions, employees
Importance of stock markets	High	Moderate/High	Moderate	High
Active external market for corporate control	Yes	No	No	No
Ownership concentration	Low	Moderate/High	High	Low/Moderate
Performance-dependent executive compensation	High	Low	Moderate	Low
Time horizon of economic relationship	Short-term	Long-term	Long-term	Long-term

Reference: Weimer and Pape, 1999:3

2.3.1.1. The Anglo-Saxon System

The Anglo-Saxonsystem is also known as the "market oriented model" or "shareholder model".It is characterized by share ownership by the individual, and to an increasing extent by institutions. Investors not affiliated with the corporation are known as outside shareholders or "outsiders". This system is based on the concept of market capitalism. The Anglo-Saxon system is "founded on the notion that self-interest and decentralized markets can function in a self-regulating, balanced

manner" (Cernat, 2004).Governance in Anglo-Saxon countries "takes place in organizations at three levels: shareholders, directors and managers, since the authority of managers derives from the administrators" (Ungureanu, 2012).

According to this system"the objective of the firm is to maximize shareholder wealth through allocative, productive and dynamic efficiency; i.e., the objective of the firm is to maximize profits"(Maher and Andersson,2000:6).In addition, it is essential to Anglo-Saxon culture and a key objective of all corporate strategies.

The company is a group of managers working for shareholders, or it is a tool to create shareholder wealth: "These directors are tasked with the primary role of representing the best interests of their shareholders, namely, by increasing their wealth" (Jackson, 2011). In this system, the "firm functions through legal compulsion between shareholders and the manager that guides managers as an agent of principals (shareholders) to maximize the market price of the corporation and distribute the quasi rent among its shareholders" (Denis, 2001; FisherandLovell,2009;Shleifer and Vishny, 1997).

The Common Law system followed in Anglo-Saxon countries accords greater protection to investors and this is reflected, in the United States among other things, by the Securities and Exchange Commission (SEC), which "has reduced its strict rules on collective activities of shareholders, proposing various regulations to encourage an investment relationship that allows managers and owners to discuss possible advantages and disadvantages of business strategy" (Ungureanu, 2012). Therefore, shareholders can exercise considerable power over management through corporate governance systems indirectly, such as when hiring and firing senior managers and setting their remuneration contracts.

A one-tier board of directors further characterizes the Anglo-Saxon countries: executive and supervisory responsibilities of the board are condensed in one legal entity (Weimer and Pape, 1999).The board is constituted by executive ("insider") and non-executive ("outsider") board members. Where insider directors advise on policy decisions taking into account the interests of shareholders, they have direct responsibility for business functions such as finance and marketing

(Weir and Laing, 2001).Inaddition,the manager is responsible to the board of directors and shareholders, the latter being especially interested in profitable activities and received dividends(Mehrotr, 2015), while outside directors can bring an independence that carries with it an expectation of superior objectivity in monitoring the behavior of management(Armstrong et al, 2016).

The monistic, or one-tier, system practiced in Anglo-Saxon companies concentrates the management and supervisory functions in the hands of one body, referred to as the board of directors (Jezak, 2014) therefore the "manager is responsible to the board of directors and shareholders, the latter being especially interested in profitable activities and received dividends"(Mehrotra, 2015).The Anglo-Saxon system of corporate governance does not allow for labor to participate in strategic management decisions(Cernat, 2004), so employees cannot be found on shareholder-friendly US boards, and as a consequence, shareholder-elected board members have a majority of the voting rights(Nurullah, 2014).In this model, the ownership is equally divided between individual and institutional shareholders who appoint the board of directors. Directors appoint and supervise the managers who generally have a negligible ownership stake in the company" (Mehrotra,2015).

In the light of previous observations, "in a market-oriented company, shareholders are the key stake-holding group to which the company is accountable, so the stock market is important as a conduit of found and also acts to discipline companies through the threat of a hostile takeover"(Padgett, 2012)."Capital markets in outsider systems play a key role in influencing the behavior of participants in the corporate governance framework". The US in particular has an active market for corporate control aswitnessedby its active market in mergers and acquisitions, including a significant number of hostile take-overs"(Maher and Andersson, 2000).The predominance of the equity financing of corporations through a large number of investors makes the capital markets of outsider economies, like those of the US and UK, highly developed, strong and very liquid (Machold and Vasudevan, 2004).

These countries rely heavily on stock markets to assemble and allocate capital.Therefore, the most important feature of these countries is the external market of controlled companies which play an active role in supporting and revitalizing the economy.In 1995, the total market capitalization of firms in the Anglo-Saxon countries was equal to 82.1 percent of their GDPs, and the new capital raised was equal to 10 percent of the Gross Fixed Capital Formation (GFCF) (Weimer and Pape, 1999).The US in particular has an active market for corporate control as witnessed by its active market in mergers and acquisitions, including a significant number of hostile take-overs"(Maher and Andersson,2000:22).

Therefore, "the market for corporate control is one of the dominant forms of external market based governance control mechanisms to punish erring or under-performing managers" (Bhasa, 2004; Lazarides and Drimpetas, 2010; Mayer, 1998; Machold and Vasudevan, 2004).

Ownership structure is one of the main dimensions of corporate governance and is widely seen to be determined by other country-level corporate governance characteristics, such as the development of the stock market and the nature of state intervention and regulation (La Porta et al, 1998).The ownership structure under the Anglo-Saxon system is characterized by diffuse ownership structures and institutional investors having higher stakes in corporations (Malla, 2010).The goals of executives may differ from those of the shareholders, so "compensation contracts should be designed to align the interests of managers (agents) with those of shareholders (principals)"(Raithatha, and Komera, 2016).

According to Weimer and Pape (1999), the executive compensationin the Anglo-Saxon system of corporate governance customarily concerns the extent to which executive pay is related to the performance of the firm.Common forms of performance-dependent executive compensation are share-option plans to align the interests of managers and shareholders, as well as multi-year bonus plans.

The time horizon of economic relationships has been defined as"short term economic relationships. "Where these countries are characterized as being market oriented, "quite unrestricted markets for capital, labor, goods and services ensure

rapid adjustment to changing circumstances, thereby disfavoring long-term and stable relationships”(Weimer and Pape 1999: 8).

2.3.1.2. The German System

Germanic countries consist of Germany, the Netherlands, Switzerland, Sweden, Austria, Denmark, Norway and Finland. The German system converging towards a market-oriented system remains to be seen; therefore, it has” traditionally been characterized by the important role that large shareholders and banks play and two-tier board structure with labor participation on the supervisory board of large companies”(Goergen et al, 2008: 37). The German conception of a firm is considered thus: “an autonomous economic entity constitutinga coalition of various participants, such as shareholders, corporate management, employees, suppliers of goods and services, suppliers of debt and customers” (Weimer and Pape, 1999 :9).

Moreover this system seeks to incorporate the goals and interests of different groups of stakeholders, including the shareholders’ interests.In contrast with the Anglo-Saxon system, the concept is completely stakeholder-oriented instead of shareholder oriented and the system of corporate governance is characterized by the German system of twotiers,wherethe German systems entrench managers and employees at the expense of shareholders(Carpenter andYermack, 2000). Also assigns the management board the responsibility of managing the company, which is advised and supervised by the members of the supervisory board.

However, management accounting is a business partner to the management board(Wulf et al,2014).The German supervisory board represents the shareholders and employees, but it is usually dominated by representatives of large shareholders (Weimer and Pape,1999) and half the board consistsof employee representatives who have the right to elect members of the supervisory board(Nurullah, 2014).In Germany, the management board (theVorstand) comprises seven or eight top managers and includes the Chairman who is the equivalent of the CEO. German firms also have a supervisory board (the Aufsichtsrat) which is the equivalentof an outside board in the USA (Carpenter andYermack, 2000).

From a legal point of view, the shareholders have ultimate control of the supervisory boards; therefore,managers are allegedly monitored by a combination of banks, large corporate shareholders, and other inter-operative relationships that are maintained over long periods(Kaplan, 1999). The management board is appointed for 5 years and dismissedby the supervisory board. The supervisory board is composed of nonexecutive independent directors in charge for 5 years(Dietl, 2002). In practice, its role is evident in advising on key corporate policy decisions.

The two-tier system is intended to enshrine independence within the company, allowing effective supervision of managerial decision-making, with the added benefit of allowing managers to focus better on the day-to-day operation of the company(Nurullah, 2014).As a result of the dual board structures and the stakeholderorientation, there can be a conflict of interest between shareholders and employees' representatives(Rinehart et al, 2013).

Company ownership is the focus on a few stakeholders that own the majority of the capital shares. Thus, the firm's institutional asset is characterized by a high degree of ownership concentration and the main shareholders are banks, other family firms and internationals investors (Merendino,2013).

Salient stakeholders are employees and industrial banks.The main reason for the absence of hostile takeovers(Goergen et al, 2008),is that the vast majority of firms have a large controlling shareholder.

In the German relationship based system, commercial banks play a dominant role and are major actors of corporate controlin a relatively less developed capital market. Apart from holding equity ownership of themselves, they are in a leadership position of monitoring the management as representatives of all the shareholders(Nestor and Thompson, 2000).Banks playa critical role in the German system of corporate governance for two reasons: firstly, because of their direct ownership of sharesand the system of proxy votes; and secondly, because industrial companies, when they resort to outside finance, still do so by appealing to banks for long- and short-term(Jürgens andRupp, 2002).

In contrast to the Anglo-Saxon system, for Germany the role of the stock market in the provision of financing is less pronounced. Banks play a central role in both financing and governance activities, and most firms have a large, controlling shareholder (Goergen et al, 2008).Furthermore, an active external market for corporate controlis almost non-existent.Generally, German stock market capitalization is small in relation to the size of the German economy. Ownership is heavily concentrated with over half of all shares being owned by (non-financial) companies, banks and insurance companies (Jürgensand Rupp, 2002).According to the OECD, "The importance of cross-holdings of shares both among non-financial enterprises and between banks and non-financial enterprises is a principal feature of German corporate governance aimed at cementing long-term relationships between firms" (OECD, 1995).Ownership in Germanic countries is concentrated (Jürgens and Rupp, 2002).Stock markets are relatively small(Mohamad and Muhamad,2001) and capital markets are relatively illiquid.Furthermore share ownership is heavily concentrated with over half of all shares being owned by (non-financial) companies, banks and insurance companies)(Jürgens and Rupp, 2002). The mechanism of rewards and compensation linked to the performance of managers is not commonly used in this system(Monks and Minow, 2002).Of note, German CEOs appear to have the highest total cash pay in Europe;nevertheless, they have the lowest non-cash remuneration (the variable part now makes out at least 40% of the total remuneration)(Goergen et al, 2008).

The sizeable and stableshareholdings by non-financial corporations and banks mentionedearlier allow for long-term and stable economic relationships, as does the institutionalized influence of employees (GelauffandBroeder, 1997). In general, also in the other Germanic countries, the institutional environment favors the establishment of long-term relationships (Weimer and Pape, 1999).

2.3.1.3. Latin Countries (France, Italy, Spain and Belgium)

Features corporate governance is the mixed market Latin economies (France, Italy and Spain) which also have concentrated ownership but more conflictual

relations between employers and employees (Michel and Dong, 2011) “the firm in the Latin countries lies somewhere in between the instrumental, Anglo-Saxon view and the institutional, Germanic view, but is altogether probably closer to the latter” (Weimer and Pape,1999:12).

The two-tier system, while often considered to offer more satisfactory separation of powers in terms of governance, remains paradoxically very much in the minority among French joint-stock companies, despite this issue joint-stock companies are free to choose between being a joint-stock company with a board of directors or a joint-stock company with an executive board and a supervisory board” (Marsac and Paclot, 2012:51).The most common allowed board system is one-tier in these countries. Except for France, companies have the choice of using either a one-tier or a two-tier board system (Weimer and Pape, 1999).Similarly, the system in Italy known as the ‘traditional’ system exists in addition to the one-tier and two-tier systems(MarsacandPaclot,2012).Moreover, in France, apart from the CEO, several other employees can be elected to boards. Senior managers usually have seats on boards (Nguyen, 2011).These countries have traditionally had systems of governance based on state-led bank credit and strong cross-shareholdings with, (especially in Italy), pyramidal holding companies.

It is worth noting that thestate has played a key role in both ownership and control of a significant group of large firms (Gospel and Pendleton, 2005). Moreover, the State’s control over French business, popularly known as *dirigisme*, is imposed both directly and indirectly. Directly, state control is seen through its business interests in varied industries and indirectly(Malla, 2010).Shareholders in the Latin countries are probably more influential than in the Germanic countries since shareholder sovereignty is viewed as an important concept (Weimer and Pape,1999).

French block-holders are more likely to exert controlon management because their stake is large enough to offset costs of control (Nguyen, 2011).On the other hand, Latin countries shareholders’ sovereignty is generally perceived as being a relevant concept and employees do not play a prominent role in corporate decision making(Moerland, 1995).The ownership of French corporations is very concentrated

such that 50.7% of firms have at least one block holder holding, 50% stake, and 68.3% with at least one 33.3% stakeholder (the blocking minority level). Nearly every company (96.6% of the sample) has at least one 5% blockholder(Nguyen, 2011).

According to Weimer and Pape (1999), stock markets play a far less important role in the economy of Latin Countries than they do in the Anglo-Saxon countries. There is no active market for corporatecontrol,banks and corporate managementas the state is the predominant player. To protect itself from unsolicited takeovers and strong competitors, French business has developed a complexnetwork of cross shareholding known as verrouillage(Malla, 2010).In terms of compensation, in "the Latin countries in general, performance-related executive compensation is not common"(Weimer and Pape,1999).Finally, economicrelationships are defined as long-term having been sustained by the existence of cross shareholdings, family ownership and government control(Moerland, 1995).

2.3.1.4. Japan (which is considered an isolate)

Typical Japanese firms have been taking the insidere type corporate governance and this insider type corporate governance is characterizedby the bearer of the corporate governance being limited to such firms as having long-term transactional relationships and mutual reliance(Sakai and Asaoka, 2003).The Japanese system brings, as something new, the holding concept, which designates industrial groups consisting of companies with common interests and similar strategies (Ungureanu, 2012).

In the Germanic countries, and in Japane in particular, the concept of corporate enterprise is not so much based on the notion of shareholders' sovereignty, butrather on an organice view considering the firm as an autonomous economic entity, constituting a coalition of various participantse (such as capital suppliers, management, and personnel (Moerland, 1995).Under the Japanese system, shareholders and employees are recognized as important stakeholders and, as in the

European system, both can sway manageriale decision-making(Franklin et al, 2017).The board has both inside and outside directors which appear similar to the one-tier board system in the United Kingdom and United States(Franklin et al, 2017).

Compared to the legally based stakeholder model in Germany, Japan's system might be described as a 'practice-dependent' stakeholder model (Gospel and Pendleton, 2005).In both the Japanese and the German systems, banks are key shareholders and develop strong relationships with corporations due to the overlapping roles and multiple services provided.Of note, in Japan, high levels of financial institutional investment are common(Mohamad and Muhamad Sori,2001). However, a Japanese firm is likely to be structured in the form of a *keiretsu*(Malla,2010),which isdefined as clusters of independently managed firms maintaining close and stable ties(Berglof and Perotti, 1994). On the other hand, "banks take a leadership role and performing monitoring role in guidingthe firm's activities" (Bhasa, 2004: 10).The ownership of Japanese corporations in the aggregate breaks down between financial institutions, nonfinancial corporations, and individuals. In addition "banks fund firms to build strong long-term relationships and play a very active role as big partners in the functioning of the firms. Japanese banks support their client firms by pumping in more capital at critical times"(Malla 2010:103)in which main bank contingent monitoring and cross-shareholdings protected the promise of lifetime employment by shielding managers and workers from shareholder demands(Gilson and Milhaupt,2011).Furthermore, Kaplan and Minton (1994)concluded that banks are an important aspect of corporate governance in Japan**.**

Of note, the most important feature of this system is that companies are not monitored by outsiders such as the capital market, but are monitored mainly by a bank, or a quasi-insider, which is usually both a creditorand a shareholder(Okabe, 2010). Historically, cross-shareholdings were put in place by many Japanese companies to prevent hostile takeovers(Allen, 2007).Moreover,Japanese stock markets play an important role in the Japanese economy(Ngwu et al,2016).

The Japanese system is basedon internal control; it does not focus on the influence of strong capital markets, but on the existence of the strategic shareholder(Shweta Mehrotra, 2015).Because of the influence of familyism and culture in the governance system, the market for corporate control is not developed (Ngwu et al, 2017).Moreover, what distinguish the Japanese system are both powerful banks with influence over firms and a highly developed and widely-held equity market (La Porta et al, 2000).

This system does not believe in linkingrewards to performance (Monks and Minow, 2002). Moreover, Japanese executives earn lower levels of cash compensation than U.S. executives(Kaplan, 1999).The long-term horizon of the management because managers generally work for the same company for a long time and represent the interests of future managers(Okabe, 2010). Japan's long-term or lifetime employment incorporating job security was created and sustained by various social institutions, including legal rules concerning dismissals, state policy to maintain employment, and social norms respecting employment. As a result,corporate governance arrangements have arguably also played a part in promoting norms and practices favorable to employment security Patient shareholders(Gospel and Pendleton, 2005).

2.4. Corporate Governance Mechanisms

One can define corporate governance mechanisms as the range of institutions and policies that are involved in these functions as they relate to corporations (Claessens, 2006).Similarly, "Corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected(John and Senbet, 1998). The mechanisms available to ensure economic efficiency are manifold and comprise(Becht andBoehmer,2003).Governance mechanisms can be split into two categories, namely internal and external mechanisms (Weir et al, 2002), it is type ofcontrolthat contributes to the organization of potential conflicts that may arise between shareholders and managers and this controleis exercised through the

external market, including the financial market, market goods and services, and labor market managers(Damak,2013). This study focuses on the internal mechanisms of corporate governance. It includes, in particular,the board of directors and ownership structure.

2.4.1. Ownership Structure and Control

2.4.1.1. Ownership Structure

Ownership structure has become an important issue in analyzing the efficiency of alternative corporate governance mechanisms (Taşand Tan, 2016).Similarly, ownership of a firm also refers to the distribution of equity with regard to votes and capital. It identifies the equity owners and the controllers of the firm (Malla, 2010).Jensen and Meckling (1976) assert that for any given firm, there are three different owner types: (i) inside equity (held by managers); (ii) outside equity (held by anyone outside of the firm); and (iii) debt (held by anyone outside of the firm).Furthermore, ownership structure is one of the main dimensions of corporate governance. It is widely seen to be determined by other country-level corporate governance characteristics, such as the development of the stock market and the nature of state intervention and regulation (LaPorta et al. 1998) although "ownership structure is not only a channel to mitigate financial constraint, but also a method of tunneling minority shareholders"(Xia,2008: 33).

Managerial Ownership: Managerial ownership represents a proportion of entities' shares owned by the management of the entities(Puspitaningrum, 2012). Furthermore, managers need more ownership to control the firm for their own benefit, and they need far more ownership to be motivated to align their own benefit with shareholders' interests.Hence, "an increase of managerial ownership helps to connect the interests of insiders and shareholders, and leads to better decision-making and higher firm"(Ruan et al, 2011).

Blockholder:A blockholder is a shareholder who owns a large proportion of the equity in a company and can therefore exert control over it. (Padgett,2012).Large blockholders play a very important role in shaping the direction of a firm's endeavors. They can contain the self-serving behavior of managers and play a proactive monitoring role (Malla,2010).Blockholder ownership represents the percentage of ordinary shares owned by substantial shareholders (5% or more). High blockholder ownership shows a tight monitoring by outsiders to the management of the entities(Puspitaningrum, 2012).

Foreign Ownership: Foreign-owned companies, a group that includes both green fields and foreign acquisitions, are consistently more productive than domestically owned firms(Manova et al, 2015).

Institutional Ownership: Institutional ownership is the stock ownership by an organization or institution, and not the individual ownership(Dharmastuti andWahyudi,2013).Pension funds, mutual funds, insurance companies and venture capital funds are typical institutional owners(Malla, 2010).

2.4.2. Board of Directors

A board of directors is one among the many elements of corporate governance structure. In addition, a board of directors is a body of elected or appointed members who jointly oversee the activities of a company or organizationsuch as a non-profit organizations or government agencies or corporations (Baysingerand Butler, 1995).A board of directors exercises the legal and practical control that belongs to the

shareholders(Collins, 2005). "The board of directors is central to corporate governance mechanisms in market economies and it is viewed as a primary means for shareholders to exercise control on top management" (John andSenbet 1998: 379). In another words, "the board of directors is the centralplayer in the governanceof companies. It is responsible for overseeing all operations by providing leadership and strategic guidance, and by monitoring management (OECD, 2011). Furthermore, a board of directors "…is agroup of executive and non-executive directors which form corporate strategy and is responsible for monitoring performance on behalf of the shareholders" (Padgett, 2011).Hence,a board of directors should have a range of skills and an understanding of power to deal with various issues related to the organization and various stakeholders (Sharmaet al, 2013).

Thus, boardeffectiveness in its monitoring function is determined by its independence, size, and composition(John and Senbet, 1998). "Boards may differ considerably with respect to such potentially salient attributes as the ratio of insiders to outsiders, the organizational affiliations of outsiders, and the independence of directors individually and as a group"(Baysinger and Butler, 1985).

2.4.2.1. Board Size and Composition

Board size and composition may influence the impact of insiders and block ownership on corporate performance by acting as either a complement or substitute for ownership structure (Singh, Davidson III, 2003).The number of directors on a board of directors determines board size (Jensen and Meckling, 1976). Several studies assert that board size should be between 7 and 15 directors (Ogbechie et al., 2009). In addition to board composition, the second important characteristic for good board is the size of the board. The board size might influence the dynamics in board functions (Nuryanah and Islam, 2011). The composition of the board structure is an important mechanism because the presence of non-executive directors represents a means of monitoring the actions of the executive directors and of ensuring that the executivedirectors are pursuing policies consistent with shareholders' interests(Fama, 1980).

2.4.2.2.Board Composition

There is no ideal formula for the structure and composition of a board. Each company has its own set of challenges that vary depending on the company's level of development and its specific needs. These challenges may require a specific set of expertise that can be gained by including a diversity of board (OECD,2011).Although board composition means to have the non-executive and independent directors in a board.Codes of governance also encourage their presence; because of their skills, experience, knowledge, competency and diversity regarding company's operation (Sohail et al,2017).According to the analysis of,Baysinger and Butler, "board composition appears to play a major role in economizingon transaction costs in, and determining the relative fortunes of, large business corporations at a given time; therefore, a change in organizational form would lead to a change in board composition, which would then lead to an increase (or no decline) in performance."

2.4.2.3.Role of the Board

In considering the historical development of boards, the key role of a board is to make decisions and set rules that will bind other members of the organization(Padgett, 2011).Since, in general, there is an assumption that the role of a board of directors is to minimize agency costs resulting from ownership and control separation and to preserve shareholder value (Williamson,1985),"the board of directors engages in a variety of roles that help in improving the corporate governance of enterprises"(Malla 2010: 59).

1. The board of directors is presumed to carry out the monitoring function on behalf of shareholders because the shareholders themselves would find it difficult to exercise control due to wide dispersion of ownership of common stock (John and Senbet,1998). However, it is responsible for overseeing all operations by providing leadership and strategic guidance, and by monitoring management(OECD, 2004).According to the OECD, it

is advisable that the board take on a central role in company governance through the performance of the following functions:

- Directingcorporate strategies;
- monitoring performance of managersand replacing any managers as required;
- guaranteeingthat the corporation complies with relevant laws;
- setting upa code of corporate ethics;
- supervisingsystems that willensure sufficient returns and dividends for shareholders; and
- Observing and ministering tomanagement's, board members' and shareholders' potential conflicts of interest (OECD, 2011: 24).

2.4.2.4. Independence of the Board

Independent directors are those who do not have a direct association with the company nor are they employees of the company. They are not former executives of the company nor are they on the board to protect the interests of some third party(Malla,2010);however, they "represent ownership interests and their own reputations as monitors of management behavior"(Baysinger and Henry, 1985).The board is presumed to bemore independent as the number of outside directors increases proportionately(John andSenbet,1998). As suggested by Davis(1991),"an independent structure is one in which an autonomous board of directors is established to monitor organizational strategic decisions and performance" (Davis et al,1997).An independent board of directors contributes with the directors' independent judgment as an essential mechanism for controlling the actions of management (Rodriguez et al, 2009). The purpose of identifying and electing independent directors is to ensure that the board includes individuals who can effectively exercise best judgment for the exclusive benefit of the company and all shareholders(OECD, 2011).

2.4.2.5. CEO Duality

CEO duality refers to a situation where the positions of CEO and chairman of the board of directors are held by one person(Daltonet al, 1998) also refers to the practice of a single individual serving as both CEO and board chair(Krause et al,2014).

2.5. Corporate Governance in the Middle East

In this section, corporate governance in some Middle East countries will be discussed with a review of the successful practices of some countries in this region.The corporate governance system has started to establish strong roots in the Middle East markets, especially from the beginning of this century.The wave of corporate governance “started with the issuance of corporate governance rules by the national regulators, and somewhat in parallel, with the establishment of national corporate governance institutes” (Koldertsova, 2010). It is worth noting that “the development of corporate governance codes in the region also started around at the beginning of the decade when Oman introduced its governance code, the first in the region, in 2002.”Since then, codes have been developed all over the region, the latest of which as recently as 2013 was in Kuwait (Amico, 2014:18).

In theory, corporate governance is presumed to improve the performance of a company and secure the interests of its shareholders. In addition, good Corporate Governance practices can create a positive relationship between a company and its wider business environment, drawing in new investors and capital funds (Alhumoudi, 2016). Conditions and practices of corporate governance are usually affected by a numberof legal concerns, including company law, securities regulations, standards of accounting and auditing, as well as laws dealing with insolvency, contract, labor and taxes(Amico, 2004: 31).Therefore, the nature of corporate governance codes in a region varies such that a number have been introduced by regulators on a “comply-or-explain” basis while others remain voluntary.

A significant number of governance codes in the region were developed by the securities regulators, with a few exceptions such as Libya where the code was developed by the stock exchange (OECD,2014:20). Egypt, in spite ofthe code not being mandatory, a numberof theclauses in it have become part of the stock exchange'slisting stipulations.In Syria, however, stipulations ofgovernance are mainly outlined in the Corporate Governance Act (OECD, 2014:21).According to asurvey of 'OECD Taskforce on Corporate Governance of State-Owned Enterprises', only 3 economies participating in the OECD's Regional Corporate Governance Working Group lack a corporate governance code or guidelines; these countries are Kuwait, Iraq and Libya(OECD, 2012).

The general outline of corporate governance in Middle East countries is listed in Table 2.4.

Table 2.4: Corporate Governance Codes and Recommendation in Middle East Countries

Country	General Corporate Governance Code	Date of Issuance	Compliance required	Other Codes or Guidelines
Algeria	Yes	2009	No	-
Bahrain	Yes	2010	No	Guidelines for banks
United Arab Emirates	Yes	2007	Yes	Code of bank
Egypt	Yes	2005 currently under revision	Yes	Code for state-owned enterprise Code for banks drafted
Jordan	Yes	2008	Yes	Code for banks
Kuwait	No	-	-	-
Lebanon	Yes	2008	No	Code for small and medium –size enterprise Code for state –owned enterprise bring draft
Saudi Arabia	Yes	2006 amended 2009	Yes	Guidelines for banks
Oman	Yes	2002	Yes	-
Qatar	Yes	2009	Yes	-
Syria	Yes	2008	No	Code of governance for financial intermediaries
Yemen	Yes	2010	No	Code for banks being drafted
Palestinian National	Yes	2009	No	Code for banks

Libya	No	-	-	-
Iraq	No	-	-	-

Reference: OECD, 2011: 5

Only Egypt and Morocco have corporate governance codes specific to SOEs although some countries have introduced legislation or regulations clarifying the role and obligations of the state as a shareholder.For instance, in Lebanon the Central Bank of Lebanon has issued detailed governance standards for banks and the Banking Control Unit of the CB monitors their application (Amico, 2014).

From2005 to2009, national regulators introduced 11 corporate governance codes as well as specialized guidance for state-owned companies, banks and family-owned businesses(Amico, 2014).Historically worldwide and bymaintainin high standards of corporate governance stock exchanges have performed a number of key functions(OECD, 2012).On the other hand, countries such as Lebanon which, while boasting a robust banking sector, lack a strong capital market to channel equity capital to companies and raise standards of governance(OECD,2009).According to a report of OECD (2009) regarding the purpose of corporate governance exchanges, themain contribution of exchanges in corporate governance is the initiation andobservation of standards of compliance and disclosure. The report focused otherfunctions of stock exchanges, bolstering the recommendations forcorporate governance for listed companies and collaboration with other regulatory bodies. A number of stock exchanges unilaterally announced codes and recommendations, or took active part indeveloping national codes of corporate governance (OECD,2012).

In the terms of the state or mutual ownership, stock exchanges remain either mutually owned or state-owned,across the region (OECD, 2012).Taking into consideration the ownership structure of and competition dynamics among stock exchanges in the region, Arab bourses have a unique opportunity to advance governance practices (OECD, 2012).

Corporate governance models can vary according to the system of corporate ownership and management control mechanisms prevailing in a

country(Nilsson, 2007).It's noteworthy that "the ownership compositionin the region also highlights a substantial role of families, often facilitated by nominee accounts. Individuals among the top five shareholders are mostly family members or close relatives holding high level executive positions (OECD, 2009).For instance, in Turkey, most large corporations are held by families or individuals. Hence, the Turkish corporate ownership and management control system can be generally classified as insidercontrolled (Nilsson, 2007).Similarly, the vast majority of businesses in Jordan are owned and controlled by families. It is estimated that 90% of businesses in Jordan are family-owned. Generally, family owned SMEs are the backbone of Jordan's economy (Al-Azzam et al,2015). Within this structure, the roles and relationships between the family, board, shareholders, and management tend to be overlapping and unclear (OECD, 2011).Similarly,"ownership in Jordanian public listed companies are much more concentrated or owned by the insider" (Albitar, 2015).

In the Middle East, the one-tier board structure is predominant. In the financial sector, the choice of corporate control structure usually follows the same direction as other non-financial companies, and the number of board members should be between three and eleven (Braendle, 2013).The frameworks of every country defines independence for directors. Moreover, independence of least one third of the board in listed companies is a requisite in countries such as the UAE, Saudi Arabia and Syria(OECD, 2012).Furthermore, corporate decisions are influenced byfamily and other controlling shareholders indirectly through their "stakes in a number of holding companies and subsidiaries"; hence, "non-family shareholders often hold comparatively low stakes in publicly listed companies and effectively do not participate in their governance" (OECD, 2009).Additionally, representatives of controlling shareholders for the majority on bank boardsand they may not be capableof carrying out the independent judgment that has been recommended in the Principles of Corporate Governance fromthe OECD(OECD, 2009).Similarly, there is general skepticism about bringing in outsiders (such as directors) who might access sensitive company information and interfere in company affairs(OECD, 2011).In several jurisdictions and their holdings sizes notwithstanding, shareholders in most countries are eligible to take part in general meetings and vote on issues. Regardless,

in the regionthe system of“one-share-one-vote” is the commonly accepted(OECD, 2012).

In most countries in the region, owners of companies tend to fulfill the roles of both chairman and CEO (many times referred to as a general manager, president, or managing director(OECD, 2011).The development of capital markets goes hand-in-hand with the required improvements related to corporate governance.Although explored in the report, disclosure practices even in listed firms remain weak, especially in terms of non-financial disclosure and in countries with voluntary governance recommendations (Amico, 2011).

Accounting disclosure is very important to all stakeholders; it provides them with the necessary information to reduce uncertainty and helps them to make suitable economic and financial decisions (Alhazaimeh et al, 2014).Furthermore, the Securities Law provides an approach for activating the rules of governanceand in order to maintain transparency, the law prohibits party transactions, promoting rumors, misleading investors and disclosing any matters that may adversely affect the capital market(Shanikat andAbbadi,2011).

It is widely acknowledged that the quality of investment decisions depends, to a large extent, on the quality and quantity of information available to investors(Albitar, 2015).Commercial arbitration andconflict resolution bodies which are able to mediate and determine matters relating to corporate governance are not widely extant in the region. On the other hand, jurisdictions covered by theGulf Cooperation Council(GCC)frequently operate parallel legal systems (such as the DIFC Courts and the Dubai courts) (OECD, 2012).

The proposals on Executive Compensation are, as in many parts of the world,built on the idea of transparency, endeavoring to mitigate any agency problems between management and shareholders.For instance,in Egypt the remuneration of executive directors on the board should be determined to “attract the best calibers in the market”, whereas in Saudi Arabia for“lump amount, attendance allowance,rights in rewards or a certain percentage of profits”(Braendle, 2012).

2.5.1. Governance Initiatives and Applications in some Middle Eastern Countries

A number of regulators such as the Omani, Saudi and Egyptian capital market authorities have reviewed the requirements imposed on public companies in order to bring these in line with international standards and to incorporate lessons learned from the financial crisis(OECD, 2011).

In the past several years, at least four new institutes of corporate governance or institutes of directors have been established, demonstrating the growing demand for corporate governance information, training, and guidance for companies to improve their practices(OECD, 2011).Furthermore, “the launch of the Egyptian Institute of Directors and of the Hawkamah Institute of Corporate Governance was as much a response to the existing demand for governance know-how, as it was to create a stronger appetite for corporate governance in the region” (Koldertsova,2010).To support the establishmentof sturdycorporate governance structuresin the region, having drafted the Code, the Corporate Governance Commission was established as a grassroots enterprise by the private sector,in Egypt, Oman, Saudi Arabia and some other countries (Koldertsova,2010).Similarly, we can remark on some encouraging indications: in relation to its Corporate Governance Regulations, enforcement actions bythe Saudi Capital Markets Authority arealready being published on its website.Without doubt, these developments indicate the beginning of a new phase of regional corporate governance, focusing on its application rather than on theraising of awareness (Koldertsova, 2010). Furthermore, the Saudi Capital Market Authority has recently updated how an “independent board member” is defined by making it clearer that 5% or greater ownership of a company by a board member is to be seenas inconsistent with independence (CMA, 2009). Corporate governance in the region faces many challenges, when regulators endeavored to bring in more stringent and austere prerequisites (that exceed thecodes ‘voluntary recommendations), they would frequently encounter corporate sector resistance. For example, the Omani Capital Markets Authority became compelled to remove one of its regulations due to local contentions. For example, the Omani Capital Markets Authority became compelled to remove one of its regulations due to

local contentions(OECD, 2014).Additionally, in 2009, Saudi listed companies were required to establish audit committees comprising at least three non-executive directors (one of whom had to come from a financial background (Alzahrani,2014).

IFCis engaged at both the firm and market level to strengthen corporate governance practices and improve firm productivity. A Corporate Governance Assessment was completed for one of the largest local banks and a Project Services Agreement was signed with a local agribusiness company.At the market level, the IFC signed two cooperation agreements with the Women Empowerment Organization and select to conduct trainings and enhance knowledge of senior management about the best corporate governance practices(WorldBankGroup,2015).

2.6. Corporate Governance in Iraq

2.6.1. Background of Iraq

Formerly part of the Ottoman Empire, Iraq was occupied by the United Kingdom during the course of World War I. In 1920, it was declared a League of Nations mandate under UK administration. In stages over the next dozens of years, Iraq attained its independence as a kingdom in 1932. A “republic” was proclaimed in 1958, and comprised 18 governorates (Hanish, 2009). Iraq is a federal country comprising 18 governorates. Fifteen governorates are administered by provincial governments and three are administered by the Kurdistan Regional Government (hereafter referred to as the KRG).

The Gross Domestic Product (GDP) in Iraq was worth 171.49 billion US dollars in 2016with an annual GDP growth rate of approximately 7.78 percent from 1991 to 2016. The GDP value of Iraq represents 0.28 percent of the world economy(World Bank Group, 2016).

The country’s largest oil reserves are located in the governorate of Basrah, the disputed governorate of Kirkuk and the autonomous region of Kurdistan(Blanchard, 2009).Iraq is the world’s fourth largest oil exporter (exporting approximately

3.7 million barrels per day of the estimated 4.2 million barrel per day that it produced in 2015), being responsible for 6 percent of today's global oil exports and 9 percent of total global reserves. It also holds the world's fifth largest proven reserves of petroleum (World Bank Group,2017).

Iraq's largely state-run economy is dominated by the oil sector, which provides more than 90% of government revenue and 80% of foreign exchange earnings. Oil exports in 2016 averaged 3.3 million barrels per day from southern Iraq, up from 2015(World Bank, 2017).

It is worth noting that with a population of more than 32 million people,Iraq lies at the heart of the wider Middle East and borders on six different countries(Maggiolini, 2013).With this population, the public sector absorbs more than 40 percent of total employment, whereas on average elsewhere in the world, about 90 percent of jobs are provided by the private sector.

The fiscal cost of government employment is mostly financed by volatile oil revenue(Manama,2016).Iraq's oil sector contributes toapproximately 65% of Iraq's GDP and over 90% of public revenues, and is therefore, central to Iraq's fiscal position and critical to the health of the Iraqi economy. The current decrease in world demand for crude oil as a result of the global financial crisis will have a significant impact on Iraq in light of its extreme oil dependence(The World Bank Group,2009).

Following the oil sector, ICT is the second largest private-sector-led economic contributor to Iraq's GDP. The total revenues of the three big mobile companies are US $4.4 billion and total revenues of the government-owned wire line and broadband operator Telegeography was approximately US $246 million in 2014 (World Bank Group, 2017).

The main channel of impact of the global financial crisis on Iraq's economy has been through depressed oil prices, affecting both export and fiscal revenues. Iraq's low integration into the world market has shielded it from a more direct impact of the global financial crisis through the country's financial sector (The World Bank Group, 2009).However,Iraq's banking sector remains underdeveloped and centered

on the domestic market. Levels of direct foreign investment and private capital flows are still very low (The World Bank Group, 2009). According to the most recent estimates, total domestic credit to the private sector amounted to 9.2 percent of GDP in 2015, the lowest level in the region.The sector is small and dominated by state-owned banks that are used primarily for directed lending and budget support, rather than as a source of financing for the private sector(World Bank Group, 2017).

Iraq's current reliance on oil is not a viable source of broad-based economic development. It is worth noting that continuing to rely on oil alone will not generate a sufficient number of jobs.Furthermore, the current economic institutions in Iraq are unable to generate productive spillovers from oil sector growth or from government spending, particularly as there are no incentives for the private sector to invest in the economy(World Bank Group, 2017).

Iraq has little experience with foreign direct investment and will require extensive capacity and institution building in order to attract and facilitate such investments (Sanford, 2003).The non-bank financial sector is small and under-developed. The stock exchange has the potential to provide issuers with access to sources of permanent and long-term capital via the issuance of equity and corporate bonds to institutional and retail investors, both domestic and foreign(World Bank Group, 2017).A number of the foreign companies operating in the country include BP, China National Petroleum Corporation (CNPC), Shell, Petronas, Total, ExxonMobil, Petrochina, Lukoil, Eni, China National Offshore Oil Corporation and Japex.Iraq's State Organization for Marketing of Oil (SOMO) is the country's national oil company in charge of collecting and exporting the country's oil(Blanchard,2009).

2.6.2. The Capital Market in Iraq

The capital market in Iraq is concentrated on the Iraq Stock Exchange (ISX)which was established under Act No. 74 of 2004 for the purpose of providing a private sector. The stock exchange is small and under-developed; however, it has potential to provide issuers with access to sources of permanent and long-term

capital via the issuance of equity and corporate bonds to domestic and foreign institutional and retail investors(Nasr, 2011).The banking sector is dominated by seven State-owned banks holding, in aggregate, 86% of bank assets and 69% of credits. There are currently 46 banks operating in Iraq, including 7 state banks. The state banks account for the bulk of assets and credits. Moreover there are 36 private banks, most of which are relatively small (ISX, 2016).In addition to banks and financial transfer, a number of companies are traded within the Iraqi stock market and in various sectors, including investment sector, services sector insurance sector, hotels and the tourism sector, telecomm,in addition to the industrial and agricultural sectors.Similarly, market intermediary companies carry out the sale and purchase of securities by investors and for their own account. Currently, 45 are licensed by the ISC and are regulated primarily by Iraq Stock Exchange(ISX, 2016).The size of the insurance market is very small, and the sector includes three state-owned insurance companies.There are approximately 18 private sector companies. The market is dominated by the state owned companies.

Furthermore, the financial sector includes the following companies (World Bank, 2011):

- The banking sector is dominated by seven state-owned banks holding, in the aggregate, 86% of bank assets and 69% of credits. There are currently 46 banks operating in Iraq, including 7 state banks. The state banks account for the bulk of assets and credits. Moreover, there are 36 private banks, most of which are relatively small.

- The Postal Saving Fund accepts public deposits and reinvests them in various fields. It has 640 branches spreadover the various provinces.

- Exchange Companies were established in the 1980s and are supervised by the CBI.

- Financial Transfer Companies are non-banking financial institutions that work according to instructions issued by the CBI No. 93 of 2008.

- Financial Investment Companies are companies;its main activity is to channel investors' savings into Iraqi securities, including stocks, bonds and treasury bills as well as fixed deposits.They are organized by the Financial Investment Company System No. 5 of 1998.

- Companies providing small and medium loans, and are organized by Instruction No. 3 of2010 issued by the CBI.

Table 2.5 Overview of Middle East and North Africa Stock Exchanges

Country	Stock Exchange	Abbreviation	Establishment	Ownership Structure
Algeria	Bourse D'Alger 1	SGBV	1993	State-owned
Bahrain	Bahrain Stock Exchange	BSE	1987	State-owned
United Arab Emirates	Dubai Financial Market Abu Dhabi Securities Exchange Nasdaq Dubai	DFMADXND	2000 2000 2005	State-owned State-owned State-owned
Egypt	Egypt Egyptian Exchange	EGX	1883	Public institution
Iraq	Iraq Stock Exchange	ISX	2004	Mutualized
Kuwait	Kuwait Stock Exchange	KSE	1984	State-owned
Lebanon	Lebanon Beirut Stock	BSE	1920	Public institution
Morocco	Bourse de Casablanca	CSE	1929	Mutualized
Saudi Arabia	Saudi Stock Exchange Tadawul	SSE	1984	State-owned
Oman	Muscat Securities Market MSM	MSM	1988	State-owned
Qatar	Qatar Exchange QE	QE	1997	State-owned
Syria	Damascus Securities Exchange	DSE	2009	Public institution
Tunisia	Bourse de Tunis	BVMT	1969	Mutualized
Palestinian National	Palestine Securities Exchange	PEX	1995	Privately held
Libya	Libyan Stock Market	LSM	2007	State-owned
Jordan	Jordan Amman Stock Exchange	ASE	1999	Public institution

Reference: OECD,2004:20

2.6.3.Central Bank of the Iraq

When Iraq was part of the Ottoman Empire, a number of European currencies circulated alongside the Turkish pound. With the establishment of the British mandate after World War I, Iraq was incorporated into the Indian monetary system, which was operated by the British, and the rupee became the principal currency in circulation, at a rate of 1 dinar = 13⅓ rupees (CBI, 2017).In 1931, the Iraq Currency Board was established in London for note issue and maintenance of reserves for the new Iraqi dinar. The currency board pursued a conservative monetary policy, maintaining very high reserves behind the dinar. The dinar was further strengthened by its link to the British pound, which was pegged at par with the British pound until 1959 (CBI, 2017).

In 1947, the government-owned "National Bank of Iraq" was founded, and in 1949, the London-based currency board was abolished as the new bank assumed responsibility for the issuing of notes and the maintenance of reserves. The "National Bank of Iraq" continued the currency board's conservative monetary policy, maintaining 100 percent reserves behind outstanding domestic currency (CBI 2017).In the mid-1930s, the Iraqi government decided to establish banks in order to make credit available to other sectors of the economy. In 1936, the government formed the "Agricultural and Industrial Bank". In 1940, this bank was divided into the "Agricultural Bank" and the "Industrial Bank", each with substantially increased capital provided by the government. The government established the "Rafidayn Bank" in 1941 as both the primary commercial bank and the central bank; however, the "National Bank of Iraq" became the government's banker in 1947. The "Real Estate Bank" was established in 1948. The "Mortgage Bank" was established in 1951, and the "Cooperative Bank" in 1956. In 1956, the "National Bank of Iraq" became the "Central Bank of Iraq". On July 14, 1964, all banks and insurance companies were nationalized, and by 1987, the banking system consisted of "Central Bank", "Rafidayn Bank", "Agricultural, Industrial, and Real Estate" Banks (Hanish,2009).

The "Central Bank of Iraq" was established as Iraq's independent central bank by the Central Bank of Iraq Law of March 6, 2004.The bank is in charge of:

- Maintaining price stability;
- Implementing monetary policy (including exchange rate policies);
- Managing foreign reserves;
- Issuing and managing the currency; and
- Regulating the banking sector to promote a competitive and stable financial system(The Central Bank of Iraq, 2012).

2.6.4.Iraqi Securities Commission

The Iraqi Securities Commission (ISC) consists of the Council of Commissioners and five members, including a chairman and vice chairman. They are professionals and experienced in the field of the securities and they are appointed by the Council of Ministers. The ISC emphasizes an effective legal and regulatory framework, efficient trading infrastructure and market mechanisms, a national market system, post-trading arrangements, clearing, settlements, depository and registration, new financial instruments (ISC ,2017).

2.6.5.Legal and Regulatory Framework

The legal basis for corporate governance in most countries is, regardless, found in company legislation, which in many countries applies to corporatized SOEs. Company law lays out basic shareholder rights as well as board and disclosure requirements, often supplemented by legal requirements for accounting, auditing, standards and professional rules for listing and other capital market requirements(The World Bank Group, 2014).Until now, there have been no laws or regulations for corporate governance in Iraq in spite the issuance of many ministerial orders such as the order from the Ministry of Industry and Minerals in November of 2006, establishing four committees to follow the development of the corporate governance (CG) codes of ethics/conduct and procedures in Iraq(Doski, 2015).

Similarly, all MENA jurisdictions, except for Iraq, have a corporate governance code (Amico, 2012). TheIraq Stock Exchange remarked that it is integrating corporate governance in disclosureregulations and suspends trading of non-compliant companies(OECD, 2012; Najim,2013) suggested that Iraqi law and regulations did not clearly state anything aboutcorporate governance.Obeidi(2011),on the other hand, presented evidence that there were some low level corporate governanceimplementations due to the lack of issuing or even establishing corporate governancecodes until now, as well as the lack of relevant local laws that determine the few corporate governancemechanisms (Al-Obeidi, and Asim,2011).

From this point, we highlight the legal framework which includes the most important laws, regulations and related instructions, such as Company Law No. 21 of 1997, Iraqi Central Banks Law No. 56 of 2004,Iraqi Banks Law No. 94 of 2004, Investment Law No. 13 of 2006,Updated Securities Trading Regulations 2015as well as the instructions of the Unified Accounting System No. 1 of 1985, the system of practicing the profession of auditing and auditing No. 3 of 1999 and accounting and auditing standards issued by the Board of Accounting and Auditing Standards in Iraq,while the control framework includes a set of instructions and procedures issued by the Securities Commission in Iraq, the Iraqi Association of Securities Dealers, the Association of Accountants and Auditors and the Society of Auditors in Iraq.

In Company Law No. 21 of 1997Section Two:

This law provides the basis for companies’ practices in Iraq, including articles about Act 103, and has formed rules related to “the board of Directors of the Joint-Stock Company and Formation of the Board of Directors” and “the board of directors of the mixed joint-stock company consists of seven original members who are chosen as follows”:

Two members representing the state sector are appointed by a competent minister or his representative in the sector to which the company belongs and five members representing shareholders from outside the state sector elected by the General Assembly of the company In the case of the share of government sector in

the capital of the mixed company exceeds 50%At the time of the selection and the board of directors of the joint stock company will consist of seven reserve members will be selected in the manner and proportion used in the case from the original members.

- Article 104 requires that "The board of directors of a private joint stock company shall consist of at least five members and no more than nine original members to be elected by the general assembly of the company".

- Article 106: "The term of membership of the Board of Directors for three years starting from the date of the first meeting of the Board of Directors, and this period is subject to renewal."

- Article 110 makes it clear that "no person can be a member of the boards of directors of more than six companies at the same time, but he may also serve as chairman of one or two other chambers at the same time. A member of the board of directors of a company may become a president or a member of the board of directors of another company that carries out similar acts unless it has been authorized by the general assemblyof his company".

- Article 121: "Each company shall have a managing director who can be from within the company or an outsiderwho is specialized and experienced in the company's activity. The managing director shall be appointed and his jurisdictions, powers, wages and remunerations shall be fixed by the board of directors in the joint-stock company and ingeneral assembly's in other companies".

- Article 126: "The board of directors in the joint-stock company and the managing director in the other companies shall prepare in the first month of each year a list containingthe names, nationalities, professions, and shares or quotas held"(ISX 2016).

In the exercise of voting rights of all shareholders on the basic decisions in the meetings of the General Assembly of the company, the article provides:

First: “Voting will be openexcept on matters relating to the election or dismissal of the chairman or a member of board of directors”.Local Accounting Rule No. 6 on Disclosure of Financial StatementInformationand AccountingPolicies also recommended that the annual reports of the company’s management be included in the information relevant to the benefits or interests of the Company's Board of Directors and executives or their relatives (ISX, 2016).

The names of shareholders holding 5% or moreof the company’s capital should also be disclosed. Paragraph III1of Section 10 of TemporaryStock Market Law No. 74 of 2004 states that it is illegal for a person or a group of allied persons to have obtained or attempted to obtain more than 30% of the shares of any joint stock company for the purpose of exercising practical control over the affairs of that company unless such person or persons commit themselves to disclose themselves and disclose their possession to the market or to the Supervisory Authority owned by the holders of shares and more than 10% of the shares negotiable (ISX, 2016).

Arguably, the ISX sought after 2004 to activate corporate governance before 2003, in an attempt to promote the principles of international governance through attention to internal inputs (organizational and institutional frameworks) through the amendment of the Companies Law 1997 and attention to external requirements. Legal framework deals with the essential requirements for disclosure and transparency to which companies should adhere or observe, as Iraq’s Unified Accounting System has instructed disclosure and transparency rules that companies should obey(Anwar, 2015).

2.6.6. Corporate Governance Practicesin Iraq

Several studies have been carried out in terms of corporate governance in developed and developing countries.However, the share of the Iraqi environment from these studies is very small and most of them focus on the financial performance of Iraqi companies or on aspects of disclosure and transparency.Although the adoption of the concept of corporate governance in Iraq is necessary, especially as

Iraq is ahead of future opportunities and challenges in all fields, especially economic fields, there is a need to create an integrated environment of trust and rules to explain good practices within companies and provide sufficient guarantees to win the confidence of investors to invest in companies operating in Iraq(Mohammed, 2012).

Khalaf et al. (2016) sought to provide evidence of the application of the system of governance within the legal and regulatory framework for companies listed on the ISX. Some of their paragraphs correspond to the principles of international corporate governance in order to reflect the effects on the economic side of the development of the index of the Iraqi market and reduce the degree of risk to listed companies in order to contribute to the construction of the market in accordance with the requirements of globalization of markets and give a clear picture of the shareholders (Khalaf and Mansour,2016). The research revolves around two significant points: First of all, it finds show serious Corporate Governance is being taken by listed companies on the Iraqi Stock Exchange (ISX). Secondly, itdetermines the reasons for not being taken seriously by the ISX and listed companies.In addition,Anwar (2015) found in his study that the instruction of the concepts of corporate governance is necessary for Iraqi listed companies and theIraq stock Exchange ISX as it will help them to cope with financial, accounting and reporting corruptions between the listed companies, particularly those related to transparent financial reports(Anwar, 2015).

CHAPTER III

RESEARCH METHODOLOGY AND FINDINGS

3.1. Introduction

The adoption of the concept of corporate governance among Iraqi listed companies was analyzed by the internal mechanisms of corporate governance within the scope of this research.The internal mechanisms of the companies listed on the Iraq Stock Exchange (ISX)which were analyzed for this research are the compositionofthe boards of directors and ownership structures. In addition, the laws and regulations that regulate the activities of the companies were discussed in orderto find suitable grounds for the application of these principles and to make the Iraqi work environment attractive for domestic and foreign investments.

This chapter is divided into two sections. The first section presents a general description of the data, methods and variables used in the analysis of this study. After a brief introduction, the data collection process is briefly discussed. This will include brief discussions on population, data types, samplings and sample sizes of the study, followed by descriptions of the variables, namely a description of the independent variables used in this research. The last part of this section is a brief discussion of the methods of data analysis and presentation used in this research,in addition to the statistical techniques employed to report the results.

The second section presents an analysis of the secondary data collected from the annual reports of Iraqi listed corporations. The results of these analyses are presented in this section in tabular form, and the results are discussed according to their presentation in the tables. Descriptive statistics tables are used to analyze and present the features of the data.

3.2. Research Methodology

3.2.1. Data Collection

In general, the data used in this research are secondary data. The data were retrieved from annual reports and financial statements of companies included in the sample. Furthermore,laws, regulations and instructions that govern the activities of the ISX and listed companies were also analyzed. The data were collected through the website of the Iraqi Securities Commission and also through the websites of companies whose shares are traded on the Iraq Stock Exchange (ISX, 2016).

After the collection of the data, descriptive statistics was used to analyze and explain the features of the data.The descriptive statistics used in this study consist of mean, maximum and minimum. The mean is calculated to measure the central tendency of the variables in 2016. The variables were coded and analyzed using Statistical Package for Social Sciences (SPSS). The findings obtained from the analyses are presented in a tabular form and discussed in the next section.

3.2.2. Research Sample

In general, the research population consists of 112companies;this number representsall companies listed on the Iraqi Stock Exchange in 2016. A sample of companies listed in primary and secondary markets was selected. After the completion of the selection of companies that have the full data required for this research,the research sample includes 81 companies; 31 companies were not included in the research sample since these companies do not have published data about their ownership structure and board composition. 31 companies represent 28% of the research community and 16 companies do not have full data or annual reports for 2016; 3 companies were excludedfor non-compliance with the instructions of the Iraqi Securities Commission. The other 3 companies were excludeddue to lack of activity, while the remaining9companies that were excluded from the study sample for lack of data for companies for the year of the study where located in hot spots

controlled by the Islamic State of Iraq and the Levant (ISIS) during those years. The last three of them are locatedin the provinces of Mosul, Anbar and Salahuddin.

Table3.1presents the population of the study, which includes all listed companies in the Iraqi primary and secondary stock market. The companies are classified according to the classification of the Iraq Stock Exchange (ISX) for 2016 into nine categories according to their area of activity as banking, investment, insurance services, industry, tourism and hotels, agriculture, transportation and money transfer.

66.99% of the listed companies in the Iraqi stock market were established before 2004, which was the year that the Iraq Stock Exchange(ISX) started its operations. Some of these companies (1.78%)were established in the 1940s. 33% of the companies listed on the Iraqi Stock Exchange (ISX)were established after 2004 and these companies are mostly concentrated in the financial services. 21.42% of these companies are banks and 8% are money transfer companies.

Table 3.1: Population of the Research

Area of Activity		**Before2004**		**After2004**	
Sector	**Total Population**	**Number**	**Percent**	**Number**	**Percent**
Banking	34	10	8.92	24	21.42
Investment	9	9	8.06	-	-
Insurance	5	4	3.57	1	0.89
Services	10	10	8.92	-	-
Industrial	25	25	22.34	-	-
tourism and hotels	10	10	8.92	-	-
Agricultural	7	7	6.26	-	-
Telecom	0	-	-	2	1.78
money transfer	10	-	-	10	8.92
Total	112	75	66.99	37	33.01

Table 3.2 shows the distribution of companiesin the sample according to their industry. The companies are re-classified into 4categories according to their area of activity.The sample of the research consists of 81 companies. The area of activity of the majority of the Iraqi companies within the sample is financial services (50.5%),

which include banks and money transfer, insurance and investment companies. The other companies have their activities in services (22.3%), includingtelecomm,tourism and hotels. Additionally,the area of activity of some of the companies is manufacturing(19.7%)and agriculture (7.4%).

Table 3.2: Research Sample according to Area of Activity

Industry		**Frequency**	**Percent**
Financial Services	Banking	22	27.2
	Money Transfer	8	9.9
	Insurance	5	6.1
	Investment	6	7.4
Services	Various Services	8	9.9
	Telecommunications	2	2.5
	Tourism and Hotels	8	9.9
Manufacturing		16	19.7
Agriculture		6	7.4
Total		**81**	**100.0**

According to Table3.2above, the banking industry ranks first in the sample, where the number of banks included in this study is 22,accounting for 27.2% of the sample. The banks are divided into two categories as private banks and joint-stock banks. The public sector has part ownership in joint-stock banks and in either money transfer companies (8), companies which are 9.9% of the sample and are within the financial services sector. Most of these companies were established after 2004.

The insurance industry includes 5 companies (6.1%)of the sample and these companies comprise insurance engineering, marine and air insurance in addition to personal accident insurance. The financial investment companies include 6 companies (7.4%), which manage various investment portfolios for their accounts or for the accounts of others. These companies sell and purchase government treasury transfers in addition to stocks, bonds and securities traded in the Iraqi market for securities.

The services industry includes 8 companies (9.9%), which includes land transportation, transportation of petroleum products, and the transportation of various commodities, both inside and outside the country.In addition to the

transportationindustry, the services companies include companies operating in the field of entertainment, amusement parks,tourism and hotels, and companies and hotels such as Al-Karkh City and the National Company for Tourism Investments. These companies are facilitated in Baghdad. As for the tourism and hotels category, the size of this sample is 8(9.9%), most of which are in Baghdad and Karbala.The telecommunications services in Iraq are controlled by only two companies. These companies form 2.5% of the sample of study and comprise Asia-Cell, and Al-Khatem Telecom Company. These two companies are listed in the primary market on the Iraqi Stock Exchange (ISX).

The manufacturing industry includes 16 companies (19.7%) of the study sample). This industry includes the production and manufacturing of various electrical household appliances, light metal and bicycle industries,marketing of agricultural products, manufacturing and marketing of carpets, dyes, sewing equipment and the production of ready-made garments, vaccines and various veterinary medicines.

While agricultural sector includes 6 companies (7.4%), some of them produce and market plant and animal products such as dairy products, meat and fish, as well as various seed and field crops.77.7% of the companies (n = 63) within the study sample are traded in the primary market. Most of these companies are in the financial services sector, whereas the remaining companies (n = 18) are traded in the secondary market Table 3.3. The Iraqi companies listed in the secondary market are smaller than those in the primary market(The World Bank, 2011).

Table 3.3 Market and Industry Cross tabulation

Industry	**Market**		**Total**
	Primary	**Secondary**	
Financial Services	25	16	41
Manufacturing	15	1	16
Agriculture	6	0	6
Services	17	1	18
Total	**63**	**18**	**81**

3.2.3. Description of Variables

The variables used in this study are independent variables which are corporate governance internal mechanisms that include ownership concentration and board composition. This study determines the independent variables in the context of internal mechanisms of corporate governance. These mechanisms are classified into twoas the composition of board of directors and the concentration of ownership.The composition of board of directors consists of CEO Duality, board size and representation of various board members such as insider members,outsider members,independent members, state members, female members and foreign members. The variables are explained below:

- CEO Duality is a situation in which the Chairman of the Board at a company is simultaneously a Chief Executive Officer.
- Board size is the number of directors sitting on the board at the annual shareholders'meeting.
- Representation of insider members is calculated as the number of insider directors divided by board size. An insider director is a director who is a current employee at the company.
- Representation of outsider members is calculated as the number of outsider directors divided by board size.An outsider directoris the director with no business or family ties to management.
- Representation of independent members is calculated as the number of independent directors divided by board size.An independent director is a director who is a member of a company's board of directors and who was brought in from outside the company.
- Representation of State Members is calculated as the number of state directors divided by board size.State directors are managers who are government employees who represent the state's share in the company.

- Representation of Female Members is calculated as the number of female directors divided by board size.
- Representation of Foreign Members is calculated as the number of foreigndirectors (who are not Iraqi citizens)divided by board size.

3.2.4. Descriptive Statistics for Board Composition and Ownership Concentration

3.2.4.1. Board Size and Composition

The average number of board of directors for the sampled companies listed on the Iraq Stock Exchange (ISX) is approximately 7 directors with a standard deviation of 1.276. For the 81 companies listed on the Iraq Stock Exchange (ISX) that are included in the sample, each has a board with a minimum of 5 directors and a maximum of 10 board members. The board with a maximum 10 members belongs to one of the companies operating in the tourism services sector, which was established in the 1980s and listed in the primary market in the Iraqi market for securities Table 3.4.

Table 3.4: Board Size

	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Board Size	81	5	10	6,65	1.276

This result is consistent with the Iraqi Companies Law No. 21. For the year 1997 Art. 103, in the board composition of Joint Stock Companies of Iraq, the number of members of the Board of Directors are two, including representatives of the public sector and five representatives of the shareholders in the case of the state sector participation rate. The company’s capital is more than 50%, and the public sector is represented by three members and four members from outside the public sector.

Most of the companies (48%) listed on the Iraq Stock Exchange (ISX) in the sample have seven board members. The companies with seven or fewer board members account for 55% of the sample, while 18.5% of the companies have eight to ten board directors. This finding is consistent with the Iraqi Companies Law No. 21 of 1997Act 103 and 104, indicating that the board of directors of mixed joint-stock companies have to consist of seven members and the board of directors of the private joint-stock companies have to consist of not fewer than five and not more than nine members. Furthermore this finding is also consistent with the number of boards of directors of companies in Middle East countries. As indicated in Chapter Two, the number of board members is between three and eleven in Middle East countries (Braendle, 2013).

Table 3.5: Board Sizes of the Companies within The Sample

Board Size	Frequency (n)	Percentage (%)
5	24	29.6
6	3	3.7
7	39	48.1
8	8	9.9
9	6	7.4
10	1	1.2
Total	**81**	**100.0**

Table 3.6 presents board member representation of the companies within the sample of this study.According to the findings presented in this table, insider directors have the highest representation rate (approximately 69%) and independent directors have the lowest representation rate (0.15%).

Table3.6: Representation of Board of Directors

Board Representation	N	Minimum	Maximum	Mean	Std. Deviation
Percentage of Insiders	81	0.00	10.00	0.6849	0.23641
Percentage of Outsiders	81	0.00	0.80	0.1323	0.19400
Percentage of Independent Members	81	0.00	0.13	0.0015	0.01389
Percentage of State Members	81	0.00	0.67	0.1157	0.16997
Percentage of Female Members	81	0.00	0.60	0.0631	0.12159
Percentage of Foreign Members	81	0.00	0.43	0.0137	0.06044

The average representation of insider directors in the total sampled companies is 68.49% (Table 3.6). There are a number of companies that do not have insider directors on their boards; however,in one of these companies,every director is an insider, and the company that does not have any insider members operates in the services industry (Tourism & Hotels), whereas the companies with more than 5 insider members represents 20.9% of the sample and the highest number of insider members among these companies is 9 (Table 3.7).This company with 9 insider members is in the telecomm services industry.

The average representation of outsider directors in the sampled Iraq companies is 13.23% (Table 3.6). 55.6% of the companies in the sample do not have any outsider members(Table 3.7). Most of these companies are in the financial services industry, especially in the money transfer industry.The highest number of outsider members of the companies within the sample is 5 and only 2 companies have 5 outsider members. These companies are in the tourism and hotels,and services industries. This finding is consistent with the OECD report, which includes the view about most companies in the Middle East. According to the OECD report, "there are general doubts about bringing in outsiders (such as managers) who may access sensitive company information and interfere in company affairs"(OECD, 2011).

The average representation of independent directors on boards in Iraq is 0.15% (Table 3.6). Almost every company (99%) has no independent members (Table 3.7). Only one company has one independent member, this company beingin the manufacturing industry and working in the manufacture of various veterinary medicines and vaccines.

The average representation of state directors on Iraq boards is 11.57% (Table 3.6). 63,0% of the companies within the sample don't have any state members in their boards (Table 3.7). However,these companies are private companies and the Iraqi Companies Law No. 21 of 1997 does not apply to these companies.

According to this law, the board of directors of private joint-stock companies has to "consist of not less than five and not more than nine members to be elected by a company's general assembly"(ISX,2016).On the other hand, the highest number of

state members in the companies within the sample is four.One of these companies with four state members operates in the services industry and it is a hotel. The second one is in the industry sector and the last one is in the agriculture industry.

The average representation of female directors on Iraqi boards is approximately 6.31% (Table 3.6). 70.4%of the companies do not have any female members on their boards (Table 3.7). Only one company has 4 female members out of seven members. This company is a private joint-stock company, founded in the 1940s and operates in the manufacturing industry.The company is listed in the secondary market of the ISX.

The average representation of foreign directors on Iraq boards is approximately 1.37% (Table 3.6). Most of the companies (93.8%) do not have any foreign members on their boards (Table 3.7). Only one company which operates in the financial industry has three foreign members, and one of the companies within the sample in the telecomm services industry has two foreign directors.

Table 3.7: Descriptive Statistics of Board Members

	Insiders		**Outsiders**		**Independent Directors**		**State Directors**		**Female Directors**		**Foreign Directors**	
	n	%	n	%	n	%	n	%	n	%	n	%
none	1	1,2	45	55,6	80	98,8	51	63,0	57	70,4	76	93,8
1	1	1,2	20	24,7	1	1,2	7	8,6	19	23,5	3	3,7
2	4	4,9	4	4,9	--	--	10	12,3	2	2,5	1	1,2
3	16	19,8	5	6,2	--	--	10	12,3	2	2,5	1	1,2
4	19	23,5	5	6,2	--	--	3	3,7	1	1,2	--	--
5	23	28,4	2	2,5	--	--	--	--	--	--	--	--
More than 5	17	20,9	--	--	--	--	--	--	--	--	--	--

There is no CEO duality for the companies listed in the sample consistingof the listed Iraqi companies; however in 66.7% of the companies within the sample, CEOs are also board members.This result is consistent with the Iraqi Companies Law No. 21 of 1997,Art. 121, which separates the CEO and chairman roles. According to the law, firstly each company should employ a managing director; the director can be

from within the company or an outsider who has specialized and experience in the company’s activity.

Next, for a joint-stock company, it is impermissible to combine the post of chairman or deputy chairman of the board of directors with the post of managing director of the company.In most of the companies (67%), CEOs are also board members. When the industries of the companies are taken into consideration, the CEOs of most of the companies that have their activities in the financial services, manufacturing and agriculture are also board members. On the other hand, only the CEOs of most of the companies in the services industries do not have their CEOs in their boards (Table 3.8).

Table 3.8:CEO and Board Member Cross tabulation Industry

	CEO is Board Member		**Total**
	No	**Yes**	
Financial Services	10	31	41
Manufacturing	2	14	16
Agriculture	2	4	6
Services	13	5	18
Total	27	54	81

3.2.4.2. Ownership Concentration

This study defines the ownership concentration as the percentage of shares held by four different ownership categories,namely public,private,family and institutional ownershipOwnership categories are listed in Table 3.9.

Table 3.9: Ownership Concentration Categories

Ownership category	**Definition**
Public	Percentage of shares owned by state
Private	Percentage of shares owned by various individuals or institutions
Family	Percentage of shares owned by families
Institutional	Percentage of shares owned by Institution(s) that arebank(s) or company(s)

Table3.10 presents how 86.4% of the companies within the sample that are listed on the Iraq Stock Exchange (ISX) are owned by the private sector, including individually owned companies representing 63%,family-owned companies representing 11.1% and institutionally owned companies representing 12.3%, whereas publicly owned companies represent only 13.6% of the sample.

Table 3.10: Ownership Concentrations of Companies within the Sample

Industry		**Frequency (n)**	**Percent(%)**
Public		11	13.6
Private	Individual	51	63.0
	Family	9	11.1
	Institutional	10	12.3
Total		81	100.0

Table 3.11 shows the descriptive statistics of ownership concentration. The ownership concentration for every company listed on the Iraq Stock Exchange (ISX) is approximately 76%. The lowest rate is 46% and the highest rate is 100%. The average ownership concentration is highest among private companies (81%) and lowest for state owned companies (55.8%).

Table 3.11: Descriptive Statistics of Ownership Concentration

	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
State Ownership (%)	11	48.50	79.33	55.8427	8.95770
Private Ownership (%)	51	50.28	100.00	81.1939	16.48546
Family Ownership (%)	9	46	96.50	76.3122	18.59138
Institutional Ownership (%)	10	50	100	70.8250	16.57087
All	81	46.00	100.00	75.982	17.93772

3.2.5. Analysis of Differences according to Industry and Ownership

Descriptive statistics were discussed in the previous sections and in this section the analyses of differences between industries and ownership structure are discussed.

When the representation of board members is considered, the percentage of insider directors are highest for the companies in financial services industries, whereas the representation of outsider directors is highest for the companies in the services industries. Moreover, independent members are only represented in the services industries. Representation of state members is highest for the companies in the manufacturing industries.On the other hand, representation of female and foreignmembers is highest for companies in the financial services Table 3.12.

Table 3.12: Board Member Representation according to Industry

	Financial Services		Manufacturing		Agriculture		Services	
Representation	**Mean**	**Std. Deviation**	**Mean**	**Std. Deviation**	**Mean**	**Std. Deviation**	**Mean**	**Std. Deviation**
Percentage of Insiders	,7667	,22249	,6033	,15084	,7074	,21106	,5634	,27408
Percentage of Outsiders	,1220	,18616	,0708	,0708	,0810	,09110	,2278	,26810
Percentage of Independent Members	,0000	,00000	,0000	,0000	,0000	,00000	,0069	,02946
Percentage of State Members	,0105	,03766	,2449	,2449	,1931	,21866	,2147	,19641
Percentage of Female Members	,0834	,12933	,0810	,0810	,0423	,06634	,0079	,03367
Percentage of Foreign Members	,0209	,07533	,0000	,0000	,0000	,00000	,0139	,05893

The board size of the companies in the manufacturing, agriculture and services industries is on average, 7. Only the board size of the companies in the financial services industry is 6, which is less than the other industries (Table 3.13).

Table 3.13: Board Size according to Industry

					95% Confidence Interval for Mean			
Board Size	**n**	**Mean**	**Std. Deviation**	**Std. Error**	**Lower Bound**	**Upper Bound**	**Minimum**	**Maximum**
Financial Services	41	6,20	1,077	,168	5,86	6,54	5	9
Manufacturing	16	7,06	,998	,249	6,53	7,59	5	9
Agriculture	6	6,67	1,506	,615	5,09	8,25	5	9
Services	18	7,33	1,495	,352	6,59	8,08	5	10
Total	81	6,65	1,276	,142	6,37	6,94	5	10

In order to test the differences between industries according to board size, ANOVA test is applied. Since the variances are homogeneous, Tamhane test is selected in order to explain the differences between groups Table 3.14, Table 3.15 indicates that there exists a significant difference (p<0,05) between the groups (Table 3.15).

Table 3.14: Board Size

Levene Statistic	df1	df2	Sig.
3,077	3	77	,032

Table 3.15: Difference of Board Sizes between Industries

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	19.611	3	6.537	4.547	.005
Within Groups	110.710	77	1.438		
Total	130.321	80			

According to the results of Tamhane's test, there exists a significant difference in terms of board size between the companies operating in financial services and manufacturing industries (p=0,043) and between the companies operating in financial services and services (p=0,044) (Table 3.16).

Table 3.16: The Difference of Board Size betweenIndustry

		Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Financial Services	Manufacturing	-,867*	,301	,043	-1,72	-,02
	Agriculture	-,472	,637	,982	-2,96	2,02
	Services	-1,138*	,391	,044	-2,25	-,02
Manufacturing	Financial Services	,867*	,301	,043	,02	1,72
	Agriculture	,396	,663	,994	-2,04	2,83
	Services	-,271	,432	,990	-1,49	,95
Agriculture	Financial Services	,472	,637	,982	-2,02	2,96
	Manufacturing	-,396	,663	,994	-2,83	2,04
	Services	-,667	,708	,939	-3,07	1,74
Services	Financial Services	1,138*	,391	,044	,02	2,25
	Manufacturing	,271	,432	,990	-,95	1,49
	Agriculture	,667	,708	,939	-1,74	3,07

The board size of the companies with public, private and institutional ownership is 7 on the average. Only the board size of the companies with family ownership is 5 which is less than the other ownership types (Table 3.17).

Table 3.17: Board Size Difference according to Ownership

	N	Mean	Std. Deviation	Std. Error	95% ConfidenceIntervalforMean		Minimum	Maximum
					LowerBound	UpperBound		
Public	11	7,82	,982	,296	7,16	8,48	7	10
Private	51	6,55	1,222	,171	6,21	6,89	5	9
Family	9	5,56	,882	,294	4,88	6,23	5	7
Institutional	10	6,90	1,197	,379	6,04	7,76	5	9
Total	81	6,65	1,276	,142	6,37	6,94	5	10

In order to test the differences between ownership types according to board size, ANOVA test is applied. Since the variances are not homogeneous, Tukey's test is selected in order to explain the differences between groups (Table 3.18). Table 3.19 indicates a significant difference ($p<0,05$) between the groups.

Table 3.18: Differences between groupsBoard Size

Levene Statistic	df1	df2	Sig.
1,015	3	77	,391

Table 3.19: Difference of Board Size between Industries

	Sum of Squares	Df	MeanSquare	F	Sig.
BetweenGroups	26,935	3	8,978	6,687	,000
WithinGroups	103,386	77	1,343		
Total	130,321	80			

According to the results of Tukey's test, there exists a significant difference in terms of board size between companies with public ownership and private ownership ($p = 0.010$), and between companies with public ownership and family ownership ($p = 0.000$) (Table 3.20).

Table 3.20: Difference of Board Size according to Ownership Structure

(I) Ownership	(J) Ownership	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Public	Private	1,269*	,342	,010	,26	2,28
	Family	2,263*	,417	,000	1,03	3,50
	Institutional	,918	,481	,364	-,51	2,34
Private	Public	-1,269*	,342	,010	-2,28	-,26
	Family	,993	,340	,065	-,05	2,03
	Institutional	-,351	,415	,959	-1,64	,94
Family	Public	-2,263*	,417	,000	-3,50	-1,03
	Private	-,993	,340	,065	-2,03	,05
	Institutional	-1,344	,479	,073	-2,78	,09
Institutional	Public	-,918	,481	,364	-2,34	,51
	Private	,351	,415	,959	-,94	1,64
	Family	1,344	,479	,073	-,09	2,78

*. The mean difference is significant at the 0.05 level.

The ownership concentration of the companies operating in the financial, manufacturing and agriculture industries is on average, 76%. Only the ownership concentration of the companies operating in the services industry is 64%, which is less than the companies operating in other industries (Table 3.21).

Table 3.21: Ownership Cross Tabulation Industry

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Financial Services	41	83,3483	15,46482	2,41520	78,4670	88,2296	46,00	100,00
Manufacturing	16	72,7913	14,85389	3,71347	64,8762	80,7063	51,60	100,00
Agriculture	6	70,4750	24,09043	9,83488	45,1936	95,7564	48,68	100,00
Services	18	63,6350	16,53827	3,89811	55,4107	71,8593	48,50	100,00
Total	81	75,9286	17,93772	1,99308	71,9623	79,8950	46,00	100,00

In order to test the differences between industries according to ownership, the ANOVA test is applied. Since the variances are not homogeneous, Tukey's test is

selected in order to explain the differences between groups (Table 3.22). Table 3.23 indicates a significant difference ($p < 0.05$) between the groups

Table 3.22: Ownership Concentration differences Between Groups

Levene Statistic	df1	df2	Sig.
1,191	3	77	,319

Table3.23: Ownership Concentration

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	5313,450	3	1771,150	6,676	,000
Within Groups	20427,490	77	265,292		
Total	25740,940	80			

According to the results of Tukey's test, there exists a significant difference in terms of ownership concentration between companies operating in the financial services and in companies operating in the services industries ($p = 0.000$) and between the companies operating in services and in financial services ($p = 0.000$) (Table 3.24).

Table3.24: Difference of Ownership Concentration according to Industry

		Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Financial Services	Manufacturing	10,55704	4,80118	,133	-2,0510	23,1651
	Agriculture	12,87329	7,11940	,277	-5,8225	31,5691
	Services	19,71329*	4,60532	,000	7,6196	31,8070
Manufacturing	Financial Services	-10,55704	4,80118	,133	-23,1651	2,0510
	Agriculture	2,31625	7,79719	,991	-18,1594	22,7919
	Services	9,15625	5,59636	,365	-5,5400	23,8525
Agriculture	Financial Services	-12,87329	7,11940	,277	-31,5691	5,8225
	Manufacturing	-2,31625	7,79719	,991	-22,7919	18,1594
	Services	6,84000	7,67814	,810	-13,3231	27,0031
Services	Financial Services	-19,71329*	4,60532	,000	-31,8070	-7,6196
	Manufacturing	-9,15625	5,59636	,365	-23,8525	5,5400

	Agriculture	-6,84000	7,67814	,810	-27,0031	13,3231

CHAPTER IV

DISCUSSION AND CONCLUSION

4.1. Introduction

This study assesses the reality of corporate governance in Iraq in order to shed light on the application of the standards and codes of corporate governance in Iraqi companies listed on the Iraqi Stock Exchange in 2016 as well as their role in attracting local and international investment.The results of this study and the descriptive statistics resulting from the analysis of secondary data reveal that the principles and standards of corporate governance have not been implemented in companies listed in the Iraqi stock market, while the widespread reliance on domestic and international accounting standards is the most applicable factor in addition to the adoption of laws and regulations governing the work of Iraqi companies and banks.

It should be noted that the findings of this study are likely to be useful to all stakeholders, including decision-makers, regulators, academics and society in general. As a result, this study, while focusing on analyzing the internal mechanisms of corporate governance listed in the Iraqi stock market and its attempt to show the availability of suitable ground for the application of the standards and principles of corporate governance and thus contribute to creating an environment conducive to investment and finding other sources to support the Iraqi economy totally dependent on the oil sector and contribute significantlyto the body of knowledgeon corporate governance in Iraq.

In this study, first of all corporate governance systems in developed countries and Middle East countries were reviewed for the purpose of benefiting from international experience in the application of standards and codes of corporate

Governance in companies listed on the Iraqi Stock Exchange in particular and Iraqi companies in general.

4.2. Dissertation Summary

This study used secondary data provided in the annual reports of companies listed on the Iraqi Stock Exchange to analyze the internal mechanisms of the corporate governance of a total of 112 companies. The sample was taken from 81 companies which contain complete information and which are listed in the primary and secondary markets of the Iraqi Stock Exchange. Thirty-one companies were excluded from the study for several reasons, such as the annual reports of these companies not being available for the study year either because of the geographic location of these companies in the hot areas of northern and western Iraq (Mosul, Anbar and Salah al-Din), which was controlled by the Islamic state in Iraq and the Levant (ISIS) or because some companies ceased due to lack of activity and were excluded from trading in the Iraqi Stock Exchange in 2016. As a result,the sample contains 81 companies and these companies were reclassified into 4 categories according to their activities.

The independent variables of this study were determined in the context of internal mechanisms of corporate governance. These internal mechanisms are classified into two as the structure of board of directors and the concentration of ownership. The structure of a board of directors consists of CEO Duality, board size and representation of various board members, such as insider, outsider, independent, state affiliated, female and foreign members. The findings of this study are discussed below in accordance with the internal governance mechanisms included in the study.

Board size is significant corporate governance characteristic. The descriptive analysis revealed that on average, the board size of listed corporations in the total sample is approximately 7members in nearly every industry except for the financial services industry, where there are 6 members on average. Most of the companies with 6 board members on average are money transfer companies and most of these

companies are private joint-stock companies. In Iraq, the Companies Law No. 21 of 1997 proposes that the Board of Directors should be 5 to 7members in listed companies, at least 5 members for private joint stock companies and at least 7 members for joint-stock companies. The finding about average board size is also consistent with most Middle East countries where board size consists of 3 to 11 members (Braendle, 2013). Additionally,many researchers have reported the ideal board size to be no more than 7 to 8 members (Jensen, 1993).

On the other hand, the descriptive analysis of the members of the boards of directors of companies listed on the Iraqi Stock Exchange revealed that most are insider members (68.49%).

Most of the companies included in the sample of the study have insider members who are appointed by shareholders in the general assembly. Similarly, boards of Egyptian companies have a higher percentage of insider directors and also (Braendle, 2013).

4.3 Summary of Findings

In addition, the descriptive analysis indicates that the outsider members of the companies listed in this study are, on average, 13.23% although it is normally presumed that efficient boards comprise a large proportion of external directors(Ghabayen, 2012). However, more than half of the companies within the sampledo not have any outsider members on their boards. The highest number of outsider members of the companies within the sample is 5 and only 2 companies operating in the services industry have 5 outsider members. This finding is consistent with the OECD report, which includes its view about most companies in the Middle East. According to this report, "there are general doubts about bringing in outsiders (such as managers) who may access sensitive company information and interfere in company affairs"(OECD, 2011).

While the presence of independent members in a board of directors is lowest with 0.15% when compared to other members, only one company has an independent member on its board. This company is in the manufacturing industry and its activity is in the manufacture of various veterinary medicines and vaccines. Therefore,Iraqi listed companies are not compatible with most developed countries and Middle East countries which have a high representation of independent members of the board. For example, in Saudi Arabia and Oman, Board members must be one-third independent members by virtue of the corporate governance code (Amico, 2016).

In addition to the independent members, female members represents a small percentage (6.31%) of the boards of directors of the sample of the study. 70.4%of the companies do not have any female members on their boards and only one company, which is a private joint-stock company, has four female members out of seven members. The highest representation of female board members is in the financial services companies.

The reason for the low representation of females on the boards may be due to the functional structure of Iraqi society. The percentage of Iraqi women working in the public sector is higher than in the private sector, with 59.6% for the public industry and 39.3% for the private industry in 2015. While36.3% of males are employed in public industry compared to 62.2% for the same year, the percentage of males working in commerce is 21% compared to 4% for females. The reason for the first two indicators can be attributed to women's preference for public industry since working conditions in this industry are usually more appropriate for the conditions of Iraqi women, as well as there being the provision ofjob security and social security inpublic industry. This is contrary to what is required in private industry of time commitments and lack of job stability or pension (The World Bank, 2010).

Another phenomenon is the glass ceiling in the Iraqi labor market, a label referring to invisible and artificial barriers that cannot be documented despite its impressive presence, highlights women’s limited access to the highest decision-making and management centers.Also, the average representation of foreign directors

on Iraqi boards is lower (1.37%) than other members. Most of the companies do not have any foreign members on their boards, and like female members, the representation of foreign members is highest for companies operating in financial services. Companies with a high representation of foreign members are companies in which foreign investors own more than 40% of the company's shares, including Telekom operating in Iraq, where more than 40% of the company's shares are owned by foreigners.

Until now, one of the reasons for the low representation of foreign members on the boards of the companies of the sample study is that the Iraqi working environment is not attractive for foreign investment and fails to apply standards or codes of corporate governance in Iraq. According to Doing Business in Iraq2017, analyzing how strong minority investor protections against self-dealing in Iraq are, the economy receives a score of 4.5 on the strength of the minority investor protection index, with a higher score indicating stronger protections. Globally, Iraq stands at 123 in the rankings of 190 economies on the strength of minority investors (WorldBank Group,2017). Iraqi investment law provides support and encouragement to the foreign investor in many paragraphs; for example, National Investment Law (NIL) No. 13 of 2006 provides a legal structure to protect foreign and domestic investors while also providing investment incentives. The NIL allows both domestic and foreign investors to qualify for investment incentives equally (Al-Waka'i, 2007). Foreign investors in Iraq are able to own commercial enterprises and investment portfolios in shares and securities. In specified circumstances, foreign entities can buy or lease land. The Companies Law No. 21 of 1997 and Regulation No. 5 of 1989 provide the legal framework for foreign investors to establish or participate in Iraqi companies (Abdel Aziz et al, 2015).

The average representation of state affiliated members on boards of the companies represented in this study is 11.57%. 63% of the companies within the sample do not have any state affiliated members on their boards.However, these companies are private companies, and according to the Iraqi Companies Law No. 21 of 1997, in a private joint-stock company, "the board of directors has to consist of not fewer than five and not more than nine members to be elected by the company's

general assembly". Hence there is no representation of state affiliated members in these companies while the highest number of state affiliated members within the sample is in the boards of the companies operating in the manufacturing industry.

There is no CEO duality for the companies listed in the sample consisting of listed Iraqi companies; however, in 66.7% of the companies within the sample, CEOs are also board members. This result is consistent with the Iraqi Companies Law No. 21 of 1997, Art. 121, which separates the CEO and chairman roles; it is not allowed to "combine the post of chairman or deputy chairman of the board of directors of a joint-stock company with the post of managing director of the company".For companies who's CEOs are also board members, most are concentrated in the financial services industry. The finding is also consistent with other Middle East countries. Saudi Arabia's new corporate law issued in 2015 is consistent with the fact that specific governance requirements, such as separating the roles of the president and CEO, be mandatory (Amico, 2016).

According to the findings of this research, ownership concentration is high in the companies listed on the Iraq Stock Exchange (ISX). The ownership concentration is approximately 76% on average. Ownership concentration is highest (81%) for private companies which include individual, family and institutional (banks and companies) ownership, andit is lowest for state-owned companies (55.8%).This percentage represents the amount of shares of the public sector in the ownership of joint-stock companies. These companies are active in the manufacturing industries and the service industry (hotels).There is also a difference in ownership concentration according to industries where the concentration of property is very high in the financial services sector. Forty-one of the sample companies are private companies (banks and money transfer companies) with the ownership structure consisting of individuals and families. The low concentration of ownership in the service sector is due to the fact that four companies from eight sample companies are joint-stock companies and 50% of the ownership structure is owned by the public sector. The remaining ownership structure is owned by the private sector (corporations, individuals and banks).

In the manufacturing sector, of 12 companies from 16 companies of the study sample, 50% of the ownership structure of these companies has apublic sector owner and the remainder is in the private sector. For the telecommunications sector, ownership is high and is 100% owned by the private sector (individuals and companies).The ownership concentration of listed companies is in contrast to the developed countries such as United Kingdom and the United States, but at the same time closely related to Jordan, where there is a high concentration of ownership (Albitar, 2015). Moreover, keiretsu groups and their interlocking shareholdings have shaped the view of Japan being a country with concentrated ownership despite being one of the developed countries (Baker andAnderson, 2010).

With this study, many findings, as mentioned previously, were discovered. These results are positive signs of a good ground for applying the principles and codes of corporate governance in the sampled Iraqi companies. This research provides an integrated conceptual corporate governance framework and analyzes the various internal corporate governancemechanisms of 81 listed Iraqi companies for the year 2016 operating in various sectors for the first time.

Different variables were reviewed and analyzed at the company level as well as at the stock exchange level of the country. To date, there is no research analyzing the internal mechanisms of corporate governance of the Iraqi Stock Exchange using a relatively large sample.

4.4.Contribution and Limitation of the Study

Although the study demonstrates important findings, there are a number of limitations. These limitations accompanying this research can be taken into consideration in future studies:

- The sample of the study included 81 companies from 112 companies listed in the Iraqi stock market in 2016 and there were a number of

restrictions that prevented the entry of every company in the sample of the study mentioned in the third chapter.

- This research will serve as background information for future research in the analysis of the mechanisms of corporate governance in Iraq. It used two internal mechanisms of corporate governance, firstly analysis of board structure based on industries after reclassification and secondly, the fact that he structure of ownership was also analyzed according to the industries of the companies operating in Iraq.

- The main constraint of this research was the size of the sample, where the public companies owned 100% by the state were not included despite their role in supporting the Iraqi economy and providing jobs for a very large segment of the population as well as diversifying the activities of companies operating in this sector. These companies were not included because they are not listed in the Iraqi Stock Exchange. Therefore, the results of this research cannot be generalized to every company operating in Iraq. Future studies may address this issue by expanding the sample size to include other listed and unlisted companies in Iraq and comparative studies also can be undertaken between different company types.

- The lack of clarity of a number of paragraphs mentioned in the Iraqi Companies Law No. 21 of 1997 forms another limitation for the study.

Future research can analyze other corporate governance mechanisms, such as those related to the composition of an audit committee, the compensation of boards of directors, the size of an audit firm and other internal corporate governance mechanisms that were outside the scope of the current study.

Although there are limitations mentioned above, this study is the first of its kind in Iraq which focuses on corporate governance in Iraq using a relatively large sample. In this study, it was found that a number of characteristics of corporate governance in Iraq were close to the corporate governance of companies operating in other Middle East countries because of a number of common factors and by

considering Iraq as one of these countries. Thefindings of this study contribute toboth the regulators of Iraq and Iraqi companies; in the way that, state institutions should publish corporate governance principles and codes for Iraqi companies and the companies should adopt these principles for better management and performance.

Corporate governance studies are suffering from other constraints, where most of the global and regional studies focus on developed countries or countries of the Middle East and the absence of descriptive or empirical studies on corporate governance in Iraq. Moreover, these studies mostly focus either on the accounting and financial aspects or they focus on disclosure requirements and transparency of Iraqi companies. Therefore, the findings of thisstudy provide an in-depth descriptive analysis of the selected internal corporate governance mechanisms for Iraqi listed companies.

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